OUT OF DEBT

PROPOSALS FOR WAR FINANCE

Written by

"Indeed, the historian has to record that in almost every age there was some superstition or other of utter unreason which strangely occupied the minds of men otherwise of activity and vigor. He has to confess that he cannot explain how it was that men once believed in the mystical significance of numbers or in the claims of astrology. We are sometimes ready to congratulate ourselves that our age has outgrown all superstitions. But the historian of the future will, I fancy, reckon in the same class

OUT OF DANGER

AND TOMORROW'S MONEY

Jerry Voorhis

as number worship and astrology and the study of the gizzards of birds the strange superstition that, whenever money is invented, a percentage must be paid forever afterward as a propitiation to a banker. It is on that superstition that the whole empire of mammon is built."

CHRISTOPHER HOLLIS in *The Breakdown of Money.*

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To

My Wife

who presided with patience, understanding, and intelligence over the birth of this volume

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J. V.

FOREWORD

This book has been written in the midst of the Second World War. It has therefore been written at a time when the very ground beneath the feet of all the peoples of the world was being profoundly shaken by mighty events beyond the power of any man or group of men to control.

Instinctively men and women in America have looked forward to a world beyond the war. They have begun to realize the supreme importance not only of building a lasting peace but of fashioning a society in which hope and opportunity would be open to the common people of the world. They have seen the intimate relationship between international peace on the one hand and a sound and sane basis for economic liberty and security within their own nation upon the other.

The winning of that economic liberty and security will be no easy task. It cannot be accomplished by any one or two magical measures. For the problems that must be mastered by this generation are not simple ones. They will require for their solution not one but many well-considered lines of action. This book deals with one such line of action.

It is a book about the National Debt of the American people. It tells the history of that debt. It describes how the present monetary system inevitably leads to the multiplication of the debt. It offers constructive proposals for dealing with these problems. The book assumes that Americans want to remain free—economically as well as politically and spiritually—and that therefore they must find the answers to their problems in relatively simple policies that will preserve and widen that freedom, not narrow it within the uncertain confines of governmental controls.

The book makes no pretense of drawing a blueprint for the world of tomorrow nor of dealing with more than one of the

phases of the economic problem of the post-war world. The reader will find no full discussion of how we can free ourselves from the menace of monopoly, no detailed description of all the measures necessary to achieve and maintain full employment, no outline of a complete national social security program, nor any exhaustive explanation of the means whereby a healthy and just equality between agriculture and industry can be achieved.

But the book does deal with one central problem upon whose reasonable solution our hope of solving other related problems in very large measure depends. It is born of the profound conviction of the author that the National Debt is important, that it can be our undoing, but that if measures that are wise, courageous, and in the best sense of the word, scientific, are applied to dealing with it, we can open the way to a better day than any we have yet known.

J. V.

Washington, D. C.
March 10, 1943

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SOONER THAN YOU THINK

TOMORROW COMES

"On the morning of December 11, the Government of Germany, pursuing its course of world conquest, declared war against the United States. . . .

"Italy also has declared war against the United States.

"I, therefore, request the Congress to recognize a state of war between the United States and Germany, and between the United States and Italy."

Franklin D. Roosevelt
The White House, December 11, 1941."

JUST FOUR DAYS had elapsed since that Sunday morning when Japanese death had rained without warning from the skies over Hawaii. And a few minutes after the above message was received by Congress the author of this book along with 392 fellow members of the House of Representatives had voted that America was from that hour at war with all the Axis powers.

Without victory in that war there could be no decent or hopeful tomorrow for the children of America.

The financial cost of victory to the United States is variously estimated at anywhere from $150,000,000,000 to $300,000,000,000. These are figures that nobody understands. They are too big. For the time being—when we think of the cost in human lives and the tragedy it would be if the United Nations do not win—even these figures do not seem so very important. But they are not just figures. They are a translation into arithmetic of the effect of the war on the economic system and the everyday

life of every American family both now and in the future. And the most important of these effects are in one way or another connected with the National Debt and what we do about it.

What these figures mean in simple human terms is this. They mean that we have got to marshal all the resources of our country in order to defeat the greatest military machines in all history—the German and the Japanese machines. We have drafted our men to serve in the armed forces. We have imposed priority ratings and a system of allocations of material upon our businesses. We are rationing consumer goods. The American people are going without a lot of things they have been used to. The government has taken over certain plants and runs them. We have the highest tax rates in our history and Congress will unquestionably increase them some more before we are through. But in spite of all our efforts to increase tax revenues everyone agrees that our federal public debt will go to at least $250,000,000,000—and probably even to $300,000,000,000—before the war is won. And the average American citizen believes more and more as the days pass that the future strength and safety of his Constitutional government as well as his hope of true freedom in the world of tomorrow depend upon the finding of a reasonable answer to the problem of that debt.

Nor is this all. After we have won the war we have got to win the peace. Winning the peace includes having jobs for returning soldiers, sailors and marines. It includes having jobs for their fathers, their brothers and—in a few years—their sons. And yet we know that when peace comes there will be the greatest problem of economic readjustment in all human history confronting us. The writer of this book has been urging preparation to meet that problem ever since September 1939. For unless we are prepared to maintain an even and adequate flow of the consumer demand of the people and thus to compensate for the withdrawal of $50,000,000,000 or $60,000,000,000 a year of governmental expenditures on armament we shall, after perhaps a brief post-war boom, have unemployment and economic collapse worse than we had in 1929. This need not happen and it must not be allowed to happen. For if it does our democracy

will be in almost as much danger as from outside attack by Japan and Germany.

What are we going to do about it?

Well, there are a lot of things that must be done but so far most of the conversation in Washington, at any rate, has been about a "shelf of public works".

Better than nothing probably.

If you can do it.

But unless other measures are taken to keep up and stimulate regular private employment, to provide complete social security coverage and the like, it will require a volume of public works of at least $30,000,000,000 and perhaps of much more than that to keep an economic balance in the face of the cutting off of government expenditures on the war. Now even assuming that Congress would go along on such a colossal public works program, where is the money coming from to finance it? From taxes? Not a chance. Not at that time. For everyone in America will think that since the war is over taxes ought to be reduced. They'll be partly wrong but they'll think it just the same and that thinking will affect legislation. From borrowing then? It is, under our present system, the only other alternative.

So we go in for deficit financing to overcome the depression of the early thirties; then we really go in for it to finance the war; and finally we go in head over heels for it to meet the crisis that follows the war period! We have to do better than that.

Winning the peace depends on our having a workable answer to the problem of the national debt.

All the things necessary and probably some that aren't necessary we are going to do to win this total war. We believe in the Democracy and Freedom that the military might and the dictatorial governments of the Axis threaten to destroy. We believe in freedom, in the right of people to insist that things ought to be better than they are. Dictatorship denies them those rights. We believe a man has a right to call his soul his own and that no dictator has a right to question this. We believe that in the sight of God one man or woman is worth as much as any other man

or woman and that children are worth most of all. We believe there ought to be a limit to the power of government and a limit to the power of strong nations. We believe that no nation has a right to overrun a weak neighbor just because it can.

Therefore America has said that to save free government and freedom of individual men, women, and children is a cause worth all the sacrifices that will be required. We know that we can do the job. Anyway we've got to.

We have as our first task the winning of this war and unless we do that there is nothing at all left anyway. So we have to get and spend the money it will take to win the war—even if it is $300,000,000,000. Indeed three-quarters of that amount had been appropriated by Congress for the war up to the end of 1942.

The total value of all the property of all the people in the United States has generally been estimated at around $400,000,000,000. $300,000,000,000 is three-quarters, then, of all the wealth of the United States.

Or take the national income, which means the total value of all the goods produced in our country in a year's time. In 1940 our national income was $77,000,000,000. $150,000,000,000 is twice that amount. And $300,000,000,000 is four times it. Of course, the total cost will depend mainly on how long the war lasts.

Perhaps we can get some idea from these figures.

How much can we raise by taxes as we go along? No one knows of course but it is doubtful that we shall raise more than $70,000,000,000 by taxation during the war period.

To bridge the gap between revenues and expenditures, so far only one general method has been employed, namely, the method of borrowing. And up until very recently only a minor portion of that borrowing has taken place through bona fide sale of bonds to individuals or corporations who have paid for the bonds with honest-to-goodness cash or bank deposits which they have earned and saved. Most of this borrowing has been done by the process of "selling" interest-bearing bonds to banks

in return for demand deposit credits newly created upon their books for the express purpose of buying these bonds.

This book is going to explain why this second kind of "borrowing" by the government is wrong; it is going to tell what we can do to keep down very substantially the increase in the interest-bearing public debt; it is going to show how we can reduce our debt after the war is over.

In Chapter VI it will be explained that money is created by four different agencies in the United States today. It will be pointed out that a small fraction of our money (small change) is created by our mint and a little by our Treasury (silver certificates). But it will be shown that practically all of it is created by either the private commercial banks by means of creating deposits and lending them at interest or by the privately owned central Federal Reserve banks when they print Federal Reserve notes or (more important), simply write down figures on their books and call them "Reserve Bank Credit". But this is getting ahead of our story.

The National Debt of the United States at the outbreak of the war was $60,000,000,000 in round figures. (By December 1942 it had risen to more than $100,000,000,000. But this was only a starter.)

If we continue to run our public finances as we do at present and if the war costs $150,000,000,000 then when the war is over the public debt will be:

	$ 60,000,000,000	— the debt on January 1, 1942
Plus	150,000,000,000	— additional war cost
	210,000,000,000	
Minus	70,000,000,000	— amount to be raised by taxes.
	$140,000,000,000	— amount of public debt at war's end.

If the war costs $300,000,000,000 then the debt will be:

	$ 60,000,000,000	— the debt on January 1, 1942
Plus	300,000,000,000	— additional cost of war
	360,000,000,000	
Minus	70,000,000,000	— amount to be raised by taxes.
	$290,000,000,000	— amount of public debt at war's end.

The average rate of interest at present on government indebtedness is about 2½%.

The interest charges each year on a debt of $140,000,000,000 at 2½% will be $3,500,000,000. On a debt of $290,000,000,000, the interest will be over $7,000,000,000. Some people contend it won't matter whether we ever pay off or reduce this National Debt. But with a debt whose annual servicing costs as much as that it would seem to matter a very great deal.

The most the United States government ever has raised by taxation in a normal peacetime year was $5,727,000,000 in 1920. Revenues in fiscal year 1941 were larger but 1941 was hardly a normal peacetime year, for already the government was pouring billions upon billions into the business of national defense.

So the people who say this National Debt doesn't amount to anything are just wrong. What do they propose when the carrying charges on the debt get to be bigger all by themselves than we can reasonably expect to raise by taxes?

It will be very hard indeed to pay off the kind of National Debt we shall get by taxation, and harder still to carry it indefinitely. There are two ugly alternatives. One is deliberate inflation. That means inflation where there is an actual effort made to bring it about so every dollar will be worth—let us say—only half what it was worth before and so the public debt, in terms of real wealth, will be only half as big. Maybe that could be done but there is as yet no record of a nation doing it unless a revolution accompanied the process. The other alternative is repudiation—just deciding not to pay the debt. The only time you can do that is when you also just decide to have a revolution of a sort. And anyway it is repugnant to the American idea of living up to obligations.

On the basis of our present financial system it is hard to find any alternatives except these. So people are worried about the future. It would help the war effort if this worry could be removed. And it can be.

We shall be doing a terribly wrong thing if we conclude that there is anything hopeless about the outlook—in spite of the

figures given. What is required of us is that we think and understand.

The key of the problem is this. *A Very Large Part Of Our Present Public Debt Never Should Have Been Public Debt At All. It Is Debt-That-Ought-Not-To-Be-Debt.* There is a whole chapter coming along to explain that statement.

But right now it will be sufficient to say that on June 30, 1941, the American people were exactly $22,314,000,000 more in debt to bondholders than they ought to have been. The National Debt on that date was that much bigger than, in right and equity, it should have been, purely and simply because we have been—and still are—permitting private banks instead of the National government to create money in the United States.

Our job, our responsibility, our duty, is to change this.

For there is one resource that we have not yet mobilized. Except for manpower, it is our greatest and most readily available resource. This resource is the central tool of all modern economic life. It is the tool the totalitarians have been quick to take hold of and it is the tool that very largely gave them their head start on us. It is a resource that clearly belongs to all the people through their government. It is the resource that commands all other resources, brings them together and furnishes the motive power that makes them move. And though we commandeer the lives and property of our citizens for the common cause we have so far let a certain small group of people claim the ownership of this central resource and exercise the incredible privilege of exacting tribute from the nation for its use.

That resource is the credit of the nation—the translation into financial terms and figures of the power of the American people to produce wealth.

"To provide for the common defense" now and "to promote the general welfare" in the future we have got to recapture that resource for the American people.

The serious thing of course is the public debt. If wrong financial methods didn't lead to the piling up of oppressive debt there would be little reason for writing this book. But we have an

idea in this country that a debt is an obligation that sooner or later has got to be paid. And we have a way of worrying about it for that reason.

There is another way to handle a public debt. You can just let it get so big that it baffles everybody completely, and then let a "devil-may-care" attitude get abroad among the people about it. If this happens the general point of view becomes something like this: "What difference does one or twenty billions more make? We'll never be able to pay anyway."

Of course, if you have dictatorial power as Hitler still has while this book is being written, you can get away with that sort of thing. And as a matter of fact that is just about what Hitler has done about the public debt of Germany—let it go clear through the roof of the popular imagination and then cut off all knowledge about it. No one knows how big it is. And no one dares ask. Nor is anyone in a position to do anything about the matter.

In a democracy it is different. Either you live up to your public obligations or something unpleasant happens to your government. So this kind of irresponsible attitude toward the public debt just won't work for us. We have got to reap what we sow whether we want to or not.

We have to marshal that central resource—the credit of the whole people. We have got to quit calling things public debt that aren't really public debt at all but public credit instead. That is why this book has been written.

The end of this chapter is a question. Here it is:

What possible excuse can we give as we go about drafting our young men, imposing priorities upon all businesses, and actually shutting some of them down completely, increasing taxes more than ever before, attempting to marshal all the resources of our people for war—what possible excuse can we give under these circumstances for compelling our very nation itself to go on paying interest tribute to private financiers in order to induce them to permit the nation to use its own credit to finance the common defense and promote the general welfare?

Upon our answer to that question may ultimately depend our chance of saving political and economic liberty.

But before we answer it and in order that we may be quite sure of our answer, let us take a look at some of the history of our country.

PART ONE

THE GREAT DEBATE

FROM JEFFERSON AND HAMILTON TO FRANKLIN D. ROOSEVELT

I.

AMERICA ACQUIRES A NATIONAL DEBT

THE AMERICAN PEOPLE would have avoided a great deal of misery and difficulty had they taken to heart Thomas Jefferson's exposure of the "art and mystery of banks". Here is what he wrote on one occasion.

> "At the time we were funding our national debt, we heard much about 'a public debt being a public blessing'; that the stock representing it was a creation of active capital for the aliment of commerce, manufactures and agriculture. This paradox was well adapted to the minds of believers in dreams, and the gulls of that size entered bona fide into it. But the art and mystery of banks is a wonderful improvement on that. It is established on the principle that 'private debts are a public blessing'. That the evidence of those private debts, called bank notes, become active capital, and aliment the whole commerce, manufactures, and agriculture of the United States. Here are a set of people for instance, who have bestowed on us the great blessing of running in our debt about two hundred millions of dollars, without our knowing who they are, where they are, or what property they have to pay this debt when called on; nay, who have made us so sensible of the blessings of letting them run in our debt, that we have exempted them by law from the repayment of these debts beyond a given proportion (generally estimated at one-third). And to fill up the measure of blessing, instead of paying, they

receive an interest on what they owe from those to whom they owe; for all the notes, or evidences of what they owe, which we see in circulation, have been lent to somebody on an interest which is levied again on us through the medium of commerce. And they are so ready still to deal out their liberalities to us, that they are now willing to let themselves run in our debt ninety millions more, on our paying them the same premium of six or eight percent and on the same legal exemption from the repayment of more than thirty millions of the debt, when it shall be called for." [1]

Now this book is not written to urge that the government run the banking business. Some pointed things will be said about bankers. But if the reader will examine them closely he will see that not one of them criticizes bankers so long as they stick to their own business of banking.

This book is written to show some of the trouble and woe we get into when we allow the banks to run the government's business. The banks started doing this in 1791 and Alexander Hamilton was mainly responsible.

What is the National Debt? It is the public debt of the Federal Government. There are a lot of other debts—private and public, state, county and municipal—but they are not what is called the National Debt. The National Debt is an amount of money or power to buy goods which all the people of America owe to certain particular people, corporations, and banks. Usually it is represented by bonds in the hands of those to whom it is owed. Naturally most of it has always been owed to the people who were well-to-do, because they are the ones who have accumulated savings with which to buy the bonds. And especially it has been and is owed to banking houses because, as a later chapter will explain, they don't have to have any money at all in order to buy government bonds under our present financial system.

The public debt is represented by "obligations of the United States," which is another name for bonds or other promises to

[1] Letter to John W. Eppes, Nov. 6, 1813. From "The Writings of Thomas Jefferson," edited by H. A. Washington.

pay. Usually we don't refer to cash money as part of the public debt. But we could do so with some accuracy. For after all if you have a $10 Federal Reserve note the United States has promised to pay you $10 of lawful money for it. Look on the back of a Federal Reserve note and you will see that this is true. But the cash money does not bear interest and the bonds do. That's the principal difference. If you put a bond under the mattress and leave it there it will gain for you more and more economic power over your fellow citizens every day. For economic power is the power to make other people work for you. And the interest on the bond gives you that power. But if you put a piece of cash money under the mattress it will at the end of a period of time still give you just the same amount of economic power as it did when you put it there.

So it makes a lot of difference whether those obligations of the United States bear interest or whether they don't. And in this book we shall be talking only about the interest-bearing obligations when we speak of the National Debt.

The first National Debt of the United States was contracted before we were really a nation. The Thirteen Colonies went into debt, and so did the Continental Congress (which was the only national government at the time) in order to pay for the Revolutionary War. Paper money was issued also—both by the colonies (or states) and by the Congress. This paper money depreciated in value very rapidly indeed for several reasons. First, too much of it was issued. Second, it was issued not on the principle of providing a medium of exchange but for the purpose of paying expenses. Third, the Continental Congress had no power to tax at all and could only request the states to contribute voluntarily to the expenses of the national government and the costs of the war. Fourth, the states did have the power to tax but they were, on the whole, not willing to use it to anything like the extent necessary. Consequently, the two great principles which should always govern monetary issue were being violated—the principle of maintaining a constant ratio between money in circulation and goods purchased for sale and the principle of always being prepared to use the taxing

power to take money out of circulation when inflation threatens. So a violent inflation took place, the money lost nearly all its value, speculators bought it by the bale, the soldiers in the army threatened to mutiny if they continued to be paid with it, and it was finally virtually repudiated.

Meanwhile debts had been contracted by the states and by the Congress. Loans were secured from Holland and from France and a considerable sum—for those times—was borrowed at home from individuals. Some of the states made provision for the payment of interest and principal out of taxes; but in the case of the debts of the Continental Congress nothing at all had been paid on either interest or principal up to the year 1783 when the war came to an end.

In that year we find the Congress becoming deeply concerned over the situation. By that time it had become apparent that a new nation had actually been born and that the representatives of the Thirteen States meeting in Congress were not spokesmen for so many rebellious English colonies but were the national governing body of that new nation.

After much debate it was finally decided to make a formal request of the states for the levying of certain import duties over a 25 year period the proceeds of which should be paid to the Congress and by it devoted exclusively to the payment of the debts. These "Recommendations to the several States by the United States in Congress assembled" were officially sent to the States on April 18, 1783, and were accompanied by an "Estimate of the National Debt" which is interesting enough to reproduce in full:

(PAPER NO. I.)

AN ESTIMATE OF THE NATIONAL DEBT

Viz.

	Livres	*Dollars*
Due to the Farmers General of France................	1,000,000	
To Individuals in France, on unliquidated accounts, estimated..	3,000,000	
To the Crown of France, including a Loan of 10,000,000 borrowed in Holland and for which France is Guarantee	28,000,000	
To Ditto, a Loan for 1783..........................	6,000,000	
	38,000,000	

At five livres 8 sous per dol.	7,037,037
To Lenders in Holland, received in part of the Loan contracted for by Mr. J. Adams, 1,678,000 florins	671,200
Borrowed in Spain by Mr. Jay	150,000
One year's Interest of Dutch Loan of 10,000,000 Livres	26,848
Foreign Debt, 1st January 1783	7,885,085

DOMESTIC DEBT

On Loan-Office Certificates, reduced to Specie value	11,463,802	
Interest unpaid for 1781	190,000	
Ditto, 1782	687,828	
Credit to Sundries in Treasury Books	638,042	
Army Debt to 31st December, 1782	5,635,618	
Unliquidated Debt estimated at	8,000,000	
Commutation to the Army agreeable to the Act of 22nd March last	5,000,000	
Bounty due to Privates	500,000	
Deficiencies in 1783, suppose	2,000,000	
		34,115,290
Total Debt		42,000,375

ANNUAL INTEREST OF THE DEBT OF THE UNITED STATES

On the Foreign Debt, part at 4 and part at 5 per cent	369,038
On the Domestic Debt, at 6 per cent	2,046,917
	2,415,956

Forty-two million dollars was a pretty big debt for those days and $2,415,000 of interest was too big—especially when the government had no tax resources with which to meet it.

It was, moreover, provided in the recommendations to the states that none would be asked to levy the import duties unless all agreed to do so. Several of them refused. Partly at least because the creditors of the states were opposed to anything that would take revenue or power over revenues away from the states. So the proposal failed and the Congress continued to be without funds and without power.

Further loans were secured in Holland by John Adams who bitterly complained that he was the only representative of America abroad who had any money and that all our embassy staffs were faced with starvation unless he exceeded his authority and provided them with funds out of his borrowings from Holland.

Paper money in large amounts was issued by some of the states—notably by Rhode Island—but once again without any reference whatsoever to sound monetary principles.

So there was no solution to the matter arrived at until after the adoption of the Constitution and the coming into office of the new government under General Washington in April of 1789. The Constitutional Convention had provided that this new government should assume the indebtedness of the old one. But the government, which up to this time had consisted merely of the Continental Congress, a group of delegates representing the states and without power either to enforce laws or collect taxes, was now possessed of all the basic powers which our federal government now enjoys. Specifically, the Congress by the terms of the Constitution had the power and the duty to "lay and collect taxes" and to "coin money and regulate its value."

Neither of these powers by itself can ever give a nation economic or financial health and stability. To use the first and neglect the second is to starve the economy and the people for want of an adequate medium of exchange; to use the second and neglect the first is, as we have seen, disastrous and leads to a disappearance of confidence, impairment of the public credit and, indeed, to the disappearance of the money itself as a useful medium of exchange since it will inevitably find its way into the hands of a few speculators.

This indeed was one of the problems with which the new government, under President George Washington, was faced. The continental currency had ceased to circulate and most of it was in speculators' hands. The certificates of indebtedness (bonds) were also, in most cases, no longer held by the people who had risked their substance to support the patriot cause but were also largely in the hands of speculators.

There was no difference of opinion about the necessity of paying the foreign debt in full.

But there were those who had all along urged that, with regard to the domestic debt, purchasers who had actually sacrificed substantial wealth to lend to the struggling revolutionary government should be paid in full but that those who had

bought the certificates as a speculation at a fraction of face value should be paid only what they had invested. Madison's Journal of the Constitutional Convention contains this report of a speech by Colonel Mason, one of the most respected and honored men of his time.

> "There was a great distinction between original creditors and those who purchased fraudulently of the ignorant and distressed. He did not mean to include those who have bought stock in the open market. He was sensible of the difficulty of drawing the line in this case, but he did not wish to preclude the attempt. Even fair purchasers, at four, five, six, eight for one, did not stand on the same footing with the first holders, supposing them not to be blamable. The interest they received, even in paper, is equal to their purchase money."

Jefferson and many others held the same view as Mason did. They were mostly men from the purely agricultural states and a lot of them were farmers—or at any rate plantation owners. They saw the whole question in a very different light indeed from that in which it appeared to Alexander Hamilton of New York. Hamilton was a financier to his finger tips and the man who was responsible more than any other individual for establishing in the United States at the very beginning of its history as an independent nation the idea that a "public debt is a public blessing." He held then, as orthodox finance does now, that the only "sound money" is money based upon a debt against which bankers can issue their private bank notes and lend the credit backed by them at interest.

Unfortunately for the American people those who have advanced this idea have always felt it necessary to accompany it with repeated warnings about some mysterious and unexplainable but nevertheless terrible danger that would befall us if the power to create money were ever exercised by a government. For it would never do for the people to discover that prudent and scientific governmental credit creation could supply them with

an entirely sound and stable medium of exchange without adding a dollar to their National Debt! And the only sure way to keep them from finding this out has been to so frighten them that they would never try it at all.

So Hamilton wanted to "fund" the entire debt at its face value, regardless of the circumstances whereby the holders of the certificates had acquired them. He also wanted the federal government to assume the obligation of paying off all the debts acquired by the states in financing the war.

In his Report on Public Credit of January 9, 1790, Hamilton wrote to Congress a classic defense of his position. Here are a few excerpts from that Report:

> "The advantages to the public creditors from the increased value of that part of their property which constitutes the public debt, needs no explanation. But there is a consequence, less obvious, though not less true, in which every other citizen is interested. It is a well-known fact that in countries in which the national debt is properly funded and an object of established confidence, it answers most of the purposes of money. Transfers of stock or public debt are the equivalent to payments in specie; or in other words, stock, in the principal transactions of business, passes current as specie. The same thing would, in all probability, happen here, under the like circumstances.
>
> "The benefits of this are various and obvious.
>
> "First. Trade is extended by it; . . .
>
> "Secondly, Agriculture and manufactures are also promoted by it; . . .
>
> "Thirdly. The interest of money will be lowered by it; . . . And from the combination of these effects, additional aids will be furnished to labor, to industry, and to arts of every kind.
>
> "But these good effects of a public debt are only to be looked for, when, by being well funded, it has acquired an *adequate* and *stable* value."

In other words, Mr. Hamilton argued that if the National Debt were "well funded," the bonds would act as a substitute for money and would help to overcome the shortage of a medium of exchange from which the United States then suffered. Just how the employment of the public debt as a substitute for money was to be brought about—and how it incidentally would become a lucrative source of private profit to a few fortunate people—will be clear in a moment.

Mr. Hamilton then proceeded in this paper to discuss the question raised by Colonel Mason and others as to whether those speculative purchasers who had bought the bonds of the revolutionary period at a fraction of their par value should or should not be paid in full. He admitted that "it would be hard to aggravate the misfortune of the first owner, who, probably, through necessity, parted with his property at so great a loss, by obliging him to contribute to the profit of the person who had speculated on his distress." But disregarding a number of historical facts such as the uncertainty of the American cause through long years of war, and the inevitable effect of this upon the sale price of the bonds, Mr. Hamilton rejected the idea of treating the original purchasers more favorably than speculative ones. Two short paragraphs give the gist of his argument:

> "The nature of the contract in its origin, is, that the public will pay the sum expressed in the security, to the first holder, or his *assignee*. The *intent* in making the security assignable, is, that the proprietor may be able to make use of his property, by selling it for as much as it *may be worth in the market,* and that the buyer may be *safe* in the purchase.
>
> "Every buyer, therefore, stands exactly in the place of the seller—has the same right with him to the identical sum expressed in the security; and having acquired that right by fair purchase, and in conformity to the original *agreement* and *intention* of the government, his claim cannot be disputed without manifest injustice."

Mr. Hamilton summarized his argument as follows:

> "The result of the foregoing discussing is this—that there ought to be no discrimination between the original holders of the debt, and present possessors by purchase—that it is expedient there should be an assumption of the state debts by the Union, and that the arrears of interest should be provided for on an equal footing with the principal."

Less than a year later Mr. Hamilton submitted to Congress his report on "A National Bank" in which he specifically stated his opposition to the exercise by Congress of the Power given it by the Constitution to "coin money and regulate its value." Here is what he said.

> "The emitting of paper money by the authority of government, is wisely prohibited to the individual states, by the national constitution: and the spirit of that prohibition ought not be disregarded by the government of the United States. Though paper emissions, under a general authority, might have some advantages not applicable, and be free from some disadvantages which are applicable, to the like emissions by the states separately, yet they are of a nature so liable to abuse, and it may even be affirmed, so certain of being abused, that the wisdom of the government will be shown in never trusting itself with the use of so seducing and dangerous an expedient."

It will be clear that one of Mr. Hamilton's main reasons for wanting to fund the debt was so it would answer the purposes of money and be used as a "substitute" for it. Having apparently ruled out per se the possibility of governmental monetary issue, he proceeded to argue for funding the debt on the appeal that more money was needed in circulation! According to Mr. Hamilton, the question was "whether the public debt, by a provision for it on true principles, shall be rendered a *substitute* for money; or whether, by being left as it is, or by being

provided for in such a manner as will wound those principles, and destroy confidence, it shall be suffered to continue, as it is, a pernicious drain of our cash from the channels of productive industry?"

The Secretary's program did not stop with the funding of the public debt. It included provision for furnishing the nation with money in the form of private bank notes and private bank credit. This was to be accomplished through the Bank of the United States.

The establishment of this institution was recommended to Congress by Mr. Hamilton in a Report submitted on December 13, 1790 and the bank was chartered by Congress in 1791. In spite of its name it was an institution privately owned and controlled (except that the United States Government was permitted to buy and own 1/5 of its stock) and was to be run primarily for private profit. But it was given specific right to issue bank notes and these were virtually guaranteed as legal tender by the government since it was provided that the government would accept them at full face value in payment of taxes or any other bills due the government.

Mr. Hamilton's argument for this bank was based first on the fact that the bank would be able to lend a much larger amount of credit than the amount of its capital and other resources. His argument forms a very good description of one of the outstanding characteristics of banking from that day to this and sets forth the basic reason why periodically there have occurred panics and depressions when banks have been unable to make good the promises to pay which they have loaned as money.

> "It is a well established fact, that banks in good credit can circulate a far greater sum than the actual quantum of their capital in gold and silver. The extent of the possible excess seems indeterminate though it has been conjecturally stated at the proportions of two and three to one. This faculty is produced in various ways. First—A great proportion of the notes which are issued and pass current

as cash, are indefinitely suspended in circulation, from the confidence which each holder has, that he can at any moment turn them into gold and silver. Secondly—Every loan which a bank makes, is, in its first shape, a credit given to the borrower on its books, the amount of which it stands ready to pay, either in its own notes, or in gold or silver, at his option. But, in a great number of cases, no actual payment is made in either. The borrower frequently, by a check or order, transfers his credit to some other person, to whom he has a payment to make; who, in his turn, is as often content with a similar credit, because he is satisfied that he can, whenever he pleases, either convert it into cash, or pass it to some other hand, as an equivalent for it. And in this manner the credit keeps circulating, performing, in every stage, the office of money, till it is extinguished by a discount with some person who has a payment to make to the bank, to an equal or greater amount. Thus large sums are lent and paid, frequently through a variety of hands, without the intervention of a single piece of coin."

Perhaps this will make clearer the significance of Jefferson's words quoted at the beginning of this chapter. And it is illuminating to compare this argument with Mr. Hamilton's easy assumption later on in the Report that all the multiple expansion indulged in by his bank will be "payable in coin" as well as with his complete disregard of the possibility of a responsible government controlling its monetary issue on principles of law and sound economic stability. He says:

"Among other material differences between a paper currency, issued by the mere authority of government, and one issued by a bank, payable in coin, is this: that in the first case, there is no standard to which an appeal can be made, as to the quantity which will only satisfy, or which will surcharge the circulation; in the last, that standard results from the demand. If more should be issued than is necessary, it will return upon the bank. Its emissions, as

elsewhere intimated, must always be in a compound ratio to the fund and the demand:—Whence it is evident, that there is a limitation in the nature of the thing; while the discretion of the government is the only measure of the extent of the emissions, by its own authority."

Mr. Hamilton's specific suggestions for the provisions of the Bank's charter show clearly how his plan was based upon the funded national debt and the bonds representing it. It also shows how the debt of the people as a whole becomes in astute financial hands the very basis of their private profit. In speaking of the bank stock he proposed that:

"The amount of each share shall be payable, one fourth in gold and silver coin, and three fourths in that part of the public debt, which, according to the loan proposed by the act making provision for the debt of the United States, shall bear an accruing interest at the time of payment of six per centum per annum."

On this capital the Bank and it alone in all the United States was to be allowed to issue bills and notes and "the bills and notes of the bank originally made payable, or which shall have become payable on demand, in gold and silver coin, shall be receivable in all payments to the United States." This private Bank of the United States was to have a monopoly. For Mr. Hamilton's twenty-second point was this: "No similar institution shall be established by any future act of the United States, during the continuance of the one hereby proposed to be established."

And finally the importance of the bonded debt of all the people in bolstering this private central bank of issue is boldly stated by Hamilton in these words: "The debt composing part of the capital, besides its collateral effect in enabling the bank to extend its operations, and consequently to enlarge its profits, will produce a direct annual revenue of six per centum from the government, which will enter into the half yearly dividends by the stockholders."

Thus Mr. Hamilton's position at the very least implied the necessity of keeping the nation constantly in debt to holders of bonds and even held that this was the one most ideal way to supply the nation with a medium of exchange.

In direct opposition to this general philosophy as well as to Hamilton's specific proposals stood Thomas Jefferson, as can immediately be seen in the following passage from his writings.

> "That we are bound to defray its expenses within our own time, and unauthorized to burden posterity with them, I suppose to have been proved in my former letter. . . . We believe, or we act as if we believed, that although an individual father cannot alienate the labor of his son, the aggregate body of fathers may alienate the labor of all their sons, of their posterity, in the aggregate, and oblige them to pay for all the enterprises, just or unjust, profitable or ruinous, into which our vices, our passions, or our personal interests may lead us. But I trust that this proposition needs only to be looked at by an American to be seen in its true point of view, and that we shall all consider ourselves unauthorized to saddle posterity with our debts, and morally bound to pay them ourselves; and consequently within what may be deemed the period of a generation, or the life of the majority. In my former letter I supposed this to be a little over twenty years. We must raise, then, ourselves the money for this war, either by taxes within the year, or by loans; and if by loans, we must repay them ourselves, proscribing forever the English practice of perpetual funding; the ruinous consequences of which, putting right out of the question, should be a sufficient warning to a considerate nation to avoid the example." [2]

Jefferson, as a matter of fact, held an even more advanced view than is indicated in the quotation just given. For in a letter to his friend William Crawford written in 1816 he said: "and if the national bills issued be bottomed (as is indispensable) on

[2] Jefferson: Writings. Edited by P. L. Ford. Pp. 396-397. New York: 1899.

pledges of specific taxes for their redemption within certain and moderate epochs, and be of proper denomination for circulation, no interest on them would be necessary or just, because they would answer to every one of the purposes of the metallic money withdrawn and replaced by them." Which is merely to point out that since any debt of a government must eventually be paid out of taxes, all that is needful to give an issue of non-interest-bearing national bills full and dependable value is precisely the same thing that is necessary to redeem an interest-bearing debt—namely, the assurance of tax revenues to back them up and retire them if need be.

Hamilton of course finally got his way all along the line. The debt was funded on a permanent basis; the debts of all the states were assumed by the Federal Government; all the holders of the old debts—whether original subscribers or speculative purchasers—were paid in full; the Bank of the U.S. was chartered. The philosophy of a public debt being a public blessing was fastened upon the young republic—or at any rate upon its government and we have not yet got rid of the idea.

Upon that idea has been built the Great Deception under which modern mankind has labored. That Great Deception is this: that money which comes into being as a result of a government or an individual going into debt and contracting to pay interest to a private bank is "sound" money, but that any money which comes into being debt and interest free, as a result of the action of a government itself, is not "sound" money but a very dangerous thing.

If once a sincere effort were made by a government to create the money of the nation in accordance with the single principle of keeping the buying power of that money constant and stable, then that sort of money would be dangerous—not to the people or to the nation but to the reputation for integrity of all of those who have perpetuated through the years this Great Deception.

In a letter to John Taylor, Thomas Jefferson, third President of the United States, and author of the Declaration of Independence, made clear his position in these words:

"I believe that banking institutions are more dangerous to our liberties than standing armies. Already they have raised up a money aristocracy that has set the Government at defiance. The issuing power should be taken from the banks and restored to the Government to whom it properly belongs."[3]

In the years that have followed there have been many who have gloomily observed that the free democracy which Jefferson exemplified by his life and writings has been passing away from America. Let them ponder whether there may not be some intimate connection between this gradual loss of Jeffersonian democracy and our failure to heed his words just quoted.

[3] Letter to John Taylor, p. 208, vol. VI, Ford edition of the writings of Thomas Jefferson. New York: 1892.

2.

THE NATIONAL DEBT FROM HAMILTON TO LINCOLN

"ALL THE PERPLEXITIES, confusion, and distress in America arise, not from defects in their constitution or confederation, not from want of honor and virtue, so much as from downright ignorance of the nature of coin, credit, and circulation."— President John Adams in a letter to Thomas Jefferson.

Having seen how our national debt became firmly established, let us review briefly its history.

Statistics tell the story almost at a glance.

PUBLIC DEBT OF THE UNITED STATES: 1800 to 1942

June 30	*Gross Debt*	*Debt Per Capita*
1800	82,976,000	$ 15.87
1810	53,173,000	7.46
1820	91,016,000	9.58
1830	48,565,000	3.83
1835	0	0
1840	3,573,000	.21
1850	63,453,000	2.77
1855	35,588,000	1.32
1860	64,844,000	2.06
1865	2,677,929,000	77.07
1870	2,436,453,000	63.19
1875	2,156,277,000	49.06
1878	2,159,418,000	45.37
1879	2,298,913,000	47.05
1880	2,090,909,000	41.69
1881	2,019,286,000	39.35
1882	1,856,916,000	35.37
1883	1,721,959,000	32.07
1884	1,625,307,000	29.60

June 30	*Gross Debt*	*Debt Per Capita*
1885.............	1,578,551,000	28.11
1886.............	1,555,660,000	27.10
1887.............	1,465,485,000	24.97
1888.............	1,384,632,000	23.09
1889.............	1,249,471,000	20.39
1890.............	1,122,397,000	17.92
1891.............	1,005,807,000	15.75
1892.............	968,219,000	14.88
1893.............	961,432,000	14.49
1894.............	1,016,898,000	15.04
1895.............	1,096,913,000	15.91
1896.............	1,222,729,000	17.40
1897.............	1,226,794,000	17.14
1898.............	1,232,743,000	16.90
1899.............	1,436,701,000	19.33
1900.............	1,263,417,000	16.56
1901.............	1,221,572,000	15.71
1902.............	1,178,031,000	14.89
1903.............	1,159,406,000	14.40
1904.............	1,136,259,000	13.88
1905.............	1,132,357,000	13.60
1906.............	1,142,523,000	13.50
1907.............	1,147,178,000	13.33
1908.............	1,177,690,000	13.46
1909.............	1,148,315,000	12.91
1910.............	1,146,940,000	12.69
1911.............	1,153,985,000	12.28
1912.............	1,193,839,000	12.48
1913.............	1,193,048,000	12.26
1914.............	1,188,235,000	12.00
1915.............	1,191,264,000	11.83
1916.............	1,225,146,000	11.96
1917.............	2,975,619,000	28.57
1918.............	12,243,629,000	115.65
1919.............	25,482,034,000	240.09
1920.............	24,297,918,000	228.32
1921.............	23,976,251,000	221.09
1922.............	22,964,079,000	208.97
1923.............	22,349,688,000	200.10
1924.............	21,251,120,000	186.86
1925.............	20,516,272,000	177.82
1926.............	19,643,183,000	167.70
1927.............	18,510,174,000	156.04
1928.............	17,604,291,000	146.69
1929.............	16,931,198,000	139.40
1930.............	16,185,308,000	131.49
1931.............	16,801,485,000	135.37
1932.............	19,487,010,000	155.93
1933.............	22,538,672,000	179.21
1934.............	27,053,086,000	213.65
1935.............	28,701,167,000	225.65

June 30	*Gross Debt*	*Debt Per Capita*
1936	33,345,385,000	261.20
1937	36,427,091,000	281.82
1938	37,167,487,000	285.43
1939	40,445,417,000	308.34
1940	42,971,044,000	325.22
1941	48,961,443,000	357.00
1942	72,422,000,000	538.58

So the least our National Debt ever amounted to was exactly zero in the year 1835; and the figure of $72,422,000,000 for June 30, 1942, was, of course, by far the greatest debt ever recorded for the close of any fiscal year up to that time.

The conflict between the Hamiltonian financial group and the followers of Jefferson had been sharp on many points. One of them was the question as to whether the National Debt was to be regarded as a permanent and basic feature of a financial system or whether every effort should be made to pay it off as soon as possible and to reduce it as rapidly as could be done.

The letter of Jefferson quoted in the previous chapter makes his position clear. He believed twenty years or so was the longest period any debt should be allowed to run.

The ablest of Jefferson's lieutenants and the man who served under him as Secretary of the Treasury was Albert Gallatin. He was a member of the House of Representatives during Washington's administration and contested Hamilton's proposals at many points. In 1796 it became necessary for the government to borrow additional money and it was proposed to allow the "Commissioners of the Sinking Fund" to sell bonds bearing six per cent interest at below par in order to secure the money quickly. Gallatin opposed this and made a speech which makes clear the difference between a perpetually funded debt with bonds of fixed maturity and a debt contracted to meet particular needs which, however, can be paid off at the will of the government and presumably will be paid off as soon as possible. Gallatin's speech is recorded as follows:

> "Mr. Gallatin called for a division of the question. He should disagree to that part which authorized the selling of the six per cent stock under par, as there was no worse financial regulation than that of suffering irredeemable Government stock at legal interest to be sold below par. He said they ought not to bind themselves to pay an additional interest for twenty-three years. No doubt, since the money was wanted, and must be had, it must be got on the best terms they were able to get it, but if it could not be obtained except by paying more than six per cent, the stock created ought to be redeemable at pleasure; because the present scarcity of money could not be supposed to last long, and it would be proper to have it in their power to avail themselves of any fall of interest which might in the meantime take place. He should, therefore, move for a division of the amendment, in order that the sense of the House might be taken on the parts separately." [4]

The debate in which this speech of Gallatin was made occurred in 1796 when Hamilton was at the height of his influence. Already, however, criticism of the Bank of the United States and of other features of the Hamiltonian financial system was beginning to be voiced by a rising opposition party, led by Jefferson.

The bonds to which Gallatin was referring in his speech just quoted were to be sold for the purpose of raising money to pay the Bank of the United States a debt owed to it by the government of which the Bank was demanding immediate settlement.

Mr. Stanwick, a member from Pennsylvania, took his position squarely behind Gallatin. On May 23, 1796, he is reported in the History of Congress as having said that instead of borrowing, he was in favor of laying taxes immediately after a debt was incurred to pay it. But Mr. Stanwick also attacked the Bank very directly and openly, pointing out that "the Bank might now, by giving a credit of two, four, and six months, sell the

[4] The History of Congress. Page 1432.

stock for ten per cent profit, above what it gave for it, if purchased under par. . . . . .

> "The gentleman from Maryland said, the Bank did only the same with Government that it did with merchants when their notes were due. But did not that gentleman know how one note was replaced by another? The Bank thus accommodated the merchants; but to Government they say, Pay us the debt, at whatever loss you do it, immediately. They have never said so to the whole body of merchants collectively, which alone could resemble the case in point. And while so much was said about the service which the Bank had done to the United States, had the Government done nothing for the Bank? Was the act of charter of no service to it? Were not fortunes made by it? Did they derive no advantage from the deposits made, and from the circulation given to their paper, by the Government? Did the Bank lend the money for the Algerine peace in cash, or was it not in stock, by which the public lost ten percent on the capital? Such repeated losses, he said, would be like the constant dropping of water upon a stone—would wear it out at last."

Meanwhile Mr. Gallatin—in the words of the History of Congress—"had brought forward a resolution to make an inquiry of the Bank whether they required payment of the whole five millions. In answer to which inquiry, the Directors had declared they must be paid, and had requested that the whole Debt might be extinguished."

So the "Bank of the United States" (!) had loaned money to the government, had then demanded full payment at a time when it was difficult for the government to pay, and had thus brought about a situation where 6% government bonds with fixed maturity of 23 years (which means they could not be retired before that) would have to be sold under par to raise the money. And the Bank was apparently in a position to pur-

chase these very bonds itself and not only to be paid in full what the government owed it but to make a handsome profit by resale of the bonds at a later date when par or better could be obtained for them.

Whether or not the Public Debt was proving a blessing to the American people in these early years it certainly was proving a blessing to the privately owned "Bank of the United States."

In 1801 Thomas Jefferson became President of the United States and appointed Albert Gallatin to be Secretary of the Treasury. The financial policy of the government, as might have been expected, underwent a very considerable change. Every effort was made to pay off the National Debt. This policy was pursued pretty continuously right down to the time of the Civil War. From 1800 to 1810 the debt was reduced from $82,972,000 to $53,173,000. The War of 1812 sent it back up again but thereafter it was constantly reduced until in 1835, during the Administration of President Andrew Jackson, the United States of America was completely free of debt!

In February, 1835, Albert Gallatin wrote a letter to Gales and Seaton, publishers of New York City, the following paragraph from which will be interesting:

> "The fundamental measure which I proposed, and was adopted by Congress, was a permanent annual appropriation of $7,300,000 a year, for the principal and interest of the debt, to continue until the whole of the principal was paid off. This proposition is not contained in my report of 1802, but in my first annual report to Congress of 1801. No other alteration has, to my knowledge, been made to the plan of redemption accordingly adopted at that time by Congress, but an increase of the sum thus annually appropriated, viz., from $7,300,000 to 8,000,000 in the year 1804, in consequence of the additional debt incurred by the purchase of Louisiana, and from eight to ten millions of dollars in the year 1816, in consequence of the great additional debt incurred during the last war. The surplus of revenue beyond the expenditure, including in

this the above-mentioned annual appropriation of 7,300,-000 to 10,000,000 of dollars, was also always appropriated to the same object, from Mr. Hamilton's time to that of the final extinction of the debt. From 1791 to 1801 there had been no such surplus and, on the contrary, the debt had been increased, notwithstanding his sinking fund. During the war, the income being far below the expenditure, the debt was necessarily increased, notwithstanding the annual appropriation. The redemption took place without any other alteration, to my knowledge, in the plan of 1801 but the increase above stated during the two periods 1801-1812 and 1816-1834." [5]

Of course the circumstances of the time were altogether helpful to Mr. Gallatin and his followers in their effort to wipe out the debt. The outstanding feature of American life during this period was the settlement of the West—that is the land to the west of the Appalachians. The income from the sale of these western lands afforded a constant, assured and unique source of income to the government. It was a type of income different from any that any government in the world had ever enjoyed on a substantial scale before. It was a type of income which no government anywhere in the world will ever in all human probability enjoy again in all history. There was, furthermore, little need for any great expenditures on the part of the federal government during this period. It was a time when individual enterprise exploiting the untapped riches of the Continent could and did solve most of the economic problems of the people. Our pioneer ancestors were a hardy and rugged people. But the problems they confronted were almost inconsequential compared to those that we in this generation must deal with.

The basic difference then between Hamilton on the one hand and Jefferson and Gallatin on the other lay in their completely different attitude toward the public debt. Hamilton believed it a good thing—particularly if it were properly funded and if the

[5] The Writings of Albert Gallatin. Edited by Henry Adams. Pp. 501-503.

bonds were of a fixed maturity—that is, if they could not be called in or retired before a certain date. For then he believed the interest-bearing bonds could become a virtual substitute for money or at least the base upon which money and credit could be created and loaned by private banks. Jefferson and Gallatin, on the other hand, regarded the public debt as an evil—necessary at times no doubt—but a thing to be got rid of just as soon as possible. They believed, as quotations in this book from Jefferson will prove, that there was every reason why government itself should create non-interest bearing money to accommodate the business of the nation provided only that not too much was issued and that effective taxes were passed to back it up and maintain its value.

The charter of the Second Bank of the United States expired in 1836. Four years earlier the Bank and its friends had secured the passage in Congress of a bill to renew the charter for another 20 year period. President Jackson vetoed the bill on the very eve of the election of 1832 and was promptly returned to office by a very substantial majority. In Jackson's farewell address of March 4, 1837, he referred to his battle with the Bank in these words:

> "The immense capital and peculiar privileges bestowed upon it (The Second Bank of the United States) enabled it to exercise despotic sway over the other banks in every part of the country. From its superior strength it could seriously injure, if not destroy, the business of any of them which might incur its resentment: *and it openly claimed for itself the power of regulating the currency throughout the United States. In other words, it asserted (and undoubtedly possessed) the power to make money plenty or scarce at its pleasure, at any time and in any quarter of the union, by controlling the issues of other banks and permitting an expansion or compelling a general contraction of the circulating medium, according to its own will.* The other banking institutions were sensible of its strength, and they

soon generally became its obedient instruments, ready at all times to execute its mandates. . . .

"In the hands of this formidable power, thus organized, was also placed unlimited dominion over the amount of the circulating medium, giving it the power to regulate the value of property and the fruits of labor in every quarter of the Union, and to bestow prosperity or bring ruin upon any city or section of the country as might best comport with its own interest or policy . . . . .

"Yet, if you had not conquered, the government would have passed from the hands of the many to the hands of the few, and this organized money power from its secret conclave would have dictated the choice of your highest officers and compelled you to make peace or war, as best suited their own wishes. The forms of your government might for a time have remained, but its living spirit would have departed from it. . . . Let us abide by the Constitution as it is written, or amend it in the constitutional mode if it is found to be defective."

President Jackson saw clearly what was wrong with any system which established a privately owned central bank of issue. He saw that no government could maintain its freedom if it was subject to the controls over itself and the economic life of the country which any such bank of issue must by its very nature possess. But the remedy he applied was hardly one to give the nation financial or monetary stability. Having destroyed the Bank of the United States he proceeded to divide government deposits among a very large number of small state banks. Each of them was engaged first and foremost in lending money to people who wanted to buy or speculate in western land. The presence of these government deposits made the small town bankers bolder than ever and their borrowers more reckless. For did not the very government of the United States have confidence in these institutions? The state banks issued their own bank notes—sometimes in fantastically large amounts —and extended credit on the basis of seriously inflated land

values. Like the Continental Currency there was no rhyme nor reason, no following of any sound monetary principle in the creation of this money by these state banks. What they were doing of course was claiming ownership of the *public* credit and writing up on their own books and lending at interest the increased values—and sometimes double and triple the values—which were being created by the growth of the United States and the development of its resources.

A great many of these banks failed and the panic of 1837 settled over the land. The difference between a "panic" in those days and a "depression" now is exactly comparable to the difference between the effects of a disease on a young man of 20 and an old man of 60. There was then always present the chance to start over. Men who went bankrupt in Ohio or Indiana just moved to Illinois or Iowa and began over. A periodic wiping out of accumulated private debts by means of panic and widespread bankruptcy was not too much of a strain on the economic and social structure of the nation.

As for the public debt, even after the war with Mexico, it amounted to only $2.06 per capita in 1860.

Then came the War Between the States. By 1865 a per capita national debt of $77.07 had been built up by the Federal Government. The interest-bearing debt increased from $64,-844,000 to $2,677,929,000, although, due to inflation and an increase in prices of over 100%, the actual debt *burden* in terms of real wealth required to discharge it had increased only about half as fast as these figures would indicate.

In the early years of the war as President Lincoln and the Congress faced ever-mounting deficits three issues of United States legal tender notes, or "greenbacks," of $150,000,000 each were authorized. Thus the interest-bearing debt was, at the end of the war, just $450,000,000 less than it would have been had these note issues not been authorized.

The following letter, written by President Lincoln in 1864, will show how thoroughly he believed in this direct use of the sovereign power of the government and how clearly he saw the great benefit its careful employment could be to the people.

Chicago, Illinois, December, 1864

Colonel E. D. Taylor,

I have long determined to make public the origin of the greenback, and tell the world that it is one of Dick Taylor's creations. You have always been friendly to me, and when troublous times fell upon us, and my shoulders, though broad and willing, were weak and myself surrounded by such circumstances and such people that I knew not whom to trust, then I said in my extremity, "I will send for Colonel Taylor; he will know what to do." I think it was in January, 1862, on or about the 16th, that I did so. You came, and I said to you, "What shall we do?" Said you, "Why, issue treasury notes bearing no interest, printed on the best banking paper. Issue enough to pay off the army expenses, and declare it a legal tender." Chase thought it a hazardous thing, but we finally accomplished it, and gave to the people of this Republic the greatest blessing they ever had—their own paper to pay off their own debts. It is due to you, the father of the present greenback, that the people should know it, and I take great pleasure in making it known. How many times I have laughed at you telling me plainly that I was too lazy to be anything but a lawyer.

Yours truly,
A. Lincoln

Much has been made of the fact that these so-called "Lincoln Greenbacks" depreciated in the course of time, relative to gold. But these notes bore upon their face this legend: "This note is a legal tender at its face value for all debts, public and private, *except duties on imports and interest on the public debt.*" Thus the government itself had to go to the bankers to buy from them gold with which to pay the interest on the national debt. And importers had to go to the same bankers to secure money—*other than greenbacks*—with which to pay their import duties. The bankers' interest in bringing about the deprecia-tion of this government money will be obvious to any fair-

minded person. For had the greenbacks not depreciated it would have been difficult indeed to prevent the Great Deception (see Chapter I) from being exposed and all the arguments to the effect that the only "sound" money is money that comes into existence through interest tribute being paid to a banker would have been proven false.

In any case due to the exception clause appearing on these "greenbacks," all the bankers had to do was to demand from the government and from the importers more than a dollar in greenbacks before they gave a gold dollar in exchange. The premium could be—and was—increased as time went on until it took $2.85 in greenbacks to buy $1 in gold.

To pay for the Civil War, however, over $2,600,000,000 of interest-bearing public bonds were issued and sold largely of course to banks. It is hardly strange that the old Hamiltonian idea about the blessed qualities of the public debt should be revived. Once again there existed a sufficient volume of National Debt for it to be used, by private bankers, as a base for the creation by them of private bank notes or demand deposits. Accordingly in 1863, in the very middle of the War and apparently as a sort of price the government had to pay to purchase the support of the financial interests, the National Bank Act was passed. It granted to national banks the privilege of issuing their own private bank notes in an amount equal to 90% of the market value of government bonds which they deposited with the Treasurer of the United States. But when bonds were deposited in this way with the Treasurer the banks continued to receive the interest upon them, which was customarily 6%. So that by this Act, every national bank was able not only to convert the National Debt of all the American people into money which it would privately issue, control, and lend, at interest, but they were also able to collect interest twice on precisely the same money! Starting out with $1,000,000 a group of men could organize a national bank and buy $1,000,000 of government bonds upon which they would collect 6% interest. Then they could deposit the bonds with the Treasurer

of the United States and issue up to $900,000 of their bank notes, which could be loaned at 6%, 8% or even 10% interest to whomever needed to borrow money.

Yes, it was a profitable business. It was so profitable, indeed, that in this period of the late 19th Century the huge fortunes which came to be known collectively as "Wall Street" were accumulated and became the dominating economic power in all America.

3.

THE NATIONAL DEBT FROM LINCOLN TO FRANKLIN D. ROOSEVELT

ON PAGE 186 of *The Conquest of Poverty* by G. G. McGeer there appears the following summary of the views of President Abraham Lincoln. The Library of Congress Legislative Reference Service says: "The statements in this extract are not in Lincoln's own words, but they represent his monetary views as expressed in his writings."

LINCOLN'S MONETARY POLICY

"Money is the creature of law and the creation of the original issue of money should be maintained as exclusive monopoly of National Government.

"Money possesses no value to the State other than that given to it by circulation.

"Capital has its proper place and is entitled to every protection. The wages of men should be recognized in the structure of and in the social order as more important than the wages of money.

"No duty is more imperative for the Government than the duty it owes the people to furnish them with a sound and uniform currency, and of regulating the circulation of the medium of exchange so that labor will be protected from a vicious currency, and commerce will be facilitated by cheap and safe exchanges.

"The available supply of gold and silver being wholly inadequate to permit the issuance of coins of intrinsic value

or paper currency convertible into coin in the volume required to serve the needs of the people, some other basis for the issue of currency must be developed, and some means other than that of convertibility into coin must be developed to prevent undue fluctuations in the value of paper currency or any other substitute for money of intrinsic value that may come into use.

"The monetary needs of increasing numbers of people advancing toward higher standards of living can and should be met by the Government. Such needs can be served by the issue of national currency and credit through the operation of a national banking system. The circulation of a medium of exchange issued and backed by the Government can be properly regulated and redundancy of issue avoided by withdrawing from circulation such amounts as may be necessary by taxation, redeposit, and otherwise. Government has the power to regulate the currency and credit of the Nation.

"Government should stand behind its currency and credit and the bank deposits of the Nation. No individual should suffer a loss of money through depreciated or inflated currency or bank bankruptcy.

"Government possessing the power to create and issue currency and credit as money and enjoying the right to withdraw both currency and credit from circulation by taxation and otherwise, need not and should not borrow capital at interest as a means of financing governmental work and public enterprise. The Government should create, issue, and circulate all the currency and credit needed to satisfy the spending power of the Government and the buying power of consumers. The privilege of creating and issuing money is not only the supreme prerogative of Government, but it is the Government's greatest creative opportunity.

"By the adoption of these principles, the long-felt want for a uniform medium will be satisfied. The taxpayers will be saved immense sums of interest, discounts, and

exchanges. The financing of all public enterprise, the maintenance of stable government and ordered progress, and the conduct of the Treasury will become matters of practical administration. The people can and will be furnished with a currency as safe as their own Government. Money will cease to be master and become the servant of humanity. Democracy will rise superior to the money power."

There in a few words are set forth most of the essential features of sound monetary policy. Abraham Lincoln saw with his clear simple vision that it was wrong for anyone except government to exercise the power of monetary issue. He saw that neither gold nor silver nor both of them together could ever supply an adequate amount of money for modern business. He saw that if this was attempted it would be easy for a few men by controlling the stocks of the precious metals to decide precisely how much money the nation should or should not have and to bring about with deliberate intent sharp rises and falls in the money value of every bit of real wealth and every hour of labor in America.

Lincoln was killed by an assassin's bullet in Ford's Theater, Washington on April 14, 1865, only one month after he had taken office for his second term. It was also five days after Lee's surrender to Grant at Appomattox—the end of the Civil War. Why was Lincoln shot? We probably will never know. But it is hard not to believe that there was far more behind the thing than just John Wilkes Booth; and it is hard not to believe that if it were the Southern cause that prompted the killing it would have been done before that cause was finally and irreparably laid away.

In any case President Lincoln understood the basic injustice of privately manufactured money and perceived that whenever the government borrowed such privately manufactured money it imposed upon its people debt-that-ought-not-to-be-debt, the interest upon which was in the nature of a pure tribute devised by clever bookkeepers. He saw that perpetually paying this tribute meant artificially limiting a nation's progress, its wealth,

and its production to the ability of that nation to pay 6%, or 4%,—yes or even 2½%—of its increase to its bankers.

Having secured passage of the National Bank Act of 1863 and having taxed state bank notes out of existence by the imposition of a 10% tax upon them, the next obvious step for any group of men who sought to control the money of this great nation was to put themselves in a position to prevent any money not created by the national banks from getting into circulation. And we know they took those steps.

One of their problems was silver. It was being mined in large amounts and if purchased by the government and coined into money it would constitute a distinct threat to the monopoly of money creation which otherwise the national banks were in a position to enjoy.

Now there is really no more sense in saying that the amount of silver that will be mined through the years will by some mystic act of Providence be approximately equal year by year to the amount of new money needed to carry on expanding trade and commerce—there is no more sense in saying that about silver than there is to saying it about gold.

And there is no sense whatsoever in saying it about gold, as the pages of history will abundantly testify.

Thus in what is contained in the next few paragraphs there is no intention to make an argument that silver can ever save the people. But it could have helped considerably at certain times.

We could in April of 1942 have been saved more than $1,750,000,000 of interest-bearing national debt if the Treasury had issued silver certificates against all the silver the American people had already bought and paid for up to that time. Instead we have been letting a large part of it lie idle in the Treasury and then have gone on borrowing demand deposits created by the private banks and paying interest on these strange transactions.

"Silver seigniorage" means the right to coin or issue money

against silver bullion in the Treasury. On April 1, 1942 the unused silver seigniorage amounted to $1,765,000,000 in round figures.

In December 1941 alone our Treasury sold $1,500,000,000 of interest-bearing bonds to private banks which were purchased with "book credits" which means demand deposits written up by the banks in order to use them to buy the bonds. Month by month such bond sales to the banks have been increasing.

A small thing you say—a mere billion and a half more or less. But a principle nevertheless that makes the difference between credit and debt for the American people.

And we will come back to this "only a billion and a half more or less of national debt" idea a little later on. That idea could be America's undoing.

In any case, the national bankers (who were of course very far from being really "national") were afraid of silver because an abundant coinage of silver by the government would to a certain extent have broken their monopoly of the money supply of this young and rapidly expanding nation. And in any period of expanding wealth production all anyone with money or the power to create money has to do is to sit on his money or his power and let the rest of the nation, by its labors, increase the purchasing power of his interest income. For if money in circulation increases less rapidly than the production of real wealth, there is that much more real wealth per dollar which means that every dollar will buy and have command over that much more real goods, services and wealth. No wonder "Wall Street" and all it has stood for grew and flourished in this period of the National Bank Act—and gold.

Good old gold! We haven't had much to say about it as yet. But it is very important—very important. For through the years the idea has been built up in the people's minds that if a fellow wants some "really sound" money the thing he has to have is gold.

So in 1873 a bill was passed through the Congress—in a manner like that of some other bills that might be mentioned

—without debate or explanation. It was the regular coinage bill for that year. But by some strange mischance the bill made no mention of the coinage of any silver! Members of the House and Senate protested that they had had no idea of what was being done. But it was too late. Silver had been demonetized and the supply of money sharply reduced.

In 1879 another victory for gold was consummated. For in that year a law passed by Congress went into effect providing that all the United States notes (Greenbacks) issued during the Civil War should be redeemable at face value in gold. Since the notes had depreciated sharply in value, many millions of dollars of them were in the hands of speculators. They stood to profit handsomely from this Act. But the more important effect was to make money even dearer than it had been before, to make it harder to get, to add to the burden of the debtor. And gold was made the master of one more kind of money. The nation was made to pay a very high price indeed for having dared to issue those Civil War United States Notes.

Down through the years that followed the battle raged, down through the period of the "last frontier" in the Eighties, through the turbulent crusade of William Jennings Bryan in 1896 when "free and unlimited coinage of silver" was the issue, and on until the Gold Standard Act of 1900 "assured" America of "sound" money forever and a day—or at least until the panic of 1907.

The issues of this battle over silver were very simple. On the one hand were the people of the West and the South, interested in an increased supply of money. They were mostly debtor-people who had borrowed money to develop the nation. They owed the money—or their country banks owed it—to the great financial houses of the East. The greater the purchasing power of money, the harder would be the payment of their debts; and the less the purchasing power of money, the easier it would be. On the other hand stood a mere handful of Eastern banks with tremendous economic power, able beyond a shadow of a doubt to bring on a depression and panic and to cause business distress—as they did during the campaign of 1896. What did they

want? They wanted then, as they have always quite naturally and understandably wanted, to keep the relative value of their own "commodity" (money) as high as possible. They wanted to keep money scarce—above all to keep control over its issue and circulation in their own hands. The National Bank Act had served them well, as we have seen. But it was also important to tie all the money of the nation to some base narrow enough to be readily controlled. Above all it was important to them to prevent the government of the United States from becoming in any way independent of the bankers in the matter of supplying the nation with a medium of exchange.

The answer of these desires of the money power was the Gold Standard. All the Gold Standard meant was that all other kinds of money were to be redeemable in one way or another in gold. This was important to the national bankers because it placed an effective limit on the amount of other money that could be issued by anyone. It meant that no matter how greatly the genius of inventors, the managerial skill of businessmen, and the skill and toil of labor might increase the nation's real wealth and power to produce wealth, the supply of money could be controlled by whosoever was able to control the supply of gold. And it didn't even need so much controlling because there was only so much of it anyway. So this fearful and wonderful economic doctrine governed the destiny of the United States very consistently indeed from the Civil War down at least to the passage of the Gold Reserve Act of 1934—and we are by no means completely rid of it yet.

Here is the doctrine:—

> That regardless of how hard the people of the nation work, regardless of how rapidly they expand production, regardless of the amount of money needed to carry on commerce and industry, regardless of the clear and desperate importance of preventing violent changes in the purchasing power of money—regardless of all these things—the amount of a medium of exchange which the nation will be allowed to have will forever be limited by the amount of a certain yellow metal which the ancients believed to have

certain magical properties and which modern bankers know for certain to possess such properties.

The absurdity of such a doctrine is clear and evident. And the factual record gives proof. For even before the passage of the Gold Standard Act, as we have seen, all of America's money was effectively tied either to gold or to the National Debt. The gold base of course was a very narrow one—that is, there never was nearly enough gold to actually enable all holders of other money to exchange it for gold. The thing worked like our present fractional reserve system of demand deposit or check-money. The idea was that not everybody would ask for gold at once. Therefore, since the available supply of gold was only a fraction anyway of what was required to support the monetary needs of the country, anyone who owned gold was in a position to control many times that amount of monetary circulation, to dictate to those who needed credit, and even at times to dictate to the government of the United States.

Here is how it worked!

One picture will suffice. It took place in 1895. It shows us the President of the United States, Grover Cleveland, hat in hand, begging J. P. Morgan to save the nation. Why? The United States government had, according to a law passed by Congress, purchased and issued money against a certain amount of silver with the promise that the certificates could be redeemed in either gold or silver. There was not too much money for the needs of business at the time. It bore the seal of the United States upon its face. The money was legal tender for all debts and it would buy bread and meat and lands and factories. But it had according to law, to be redeemed either in gold or silver and so strong were the financial interests and so great an influence did they exert that the policy was adopted of always redeeming in gold. And the gold reserve traditionally kept at $100,000,000 had been dipped into! In January 1894 it had been drawn down to $65,000,000. (Of course, there never was more than about a tenth enough real gold to actually redeem the money outstanding which was "redeemable" in gold. But the

idea was that it was a safe bet that no more than one person in ten would ask for his money in gold, whereas it was a very unsafe bet that no more than one in eleven would do so.)

The simple fact that the silver had been tied to and virtually made redeemable in gold thus accounted for the helplessness of the United States Government, which had given away its power to "coin money and regulate the value thereof." It also accounted for the almighty power of Mr. Morgan who could then, as his successors can now, purchase gold with credits written on a banker's book of account which were not there or anywhere else—save in the banker's imagination—before.

In January, 1894, and again in November of the same year, $50,000,000 worth of 5% ten year United States bonds were sold to bankers' syndicates for gold, in order to replenish the gold reserve. But just as soon as this had been done, in both cases large amounts of notes were immediately presented for redemption. Why and under whose influence will be clear in a moment. For finally in desperation President Cleveland called in Mr. J. P. Morgan and asked if Mr. Morgan and his syndicate would not only buy some more bonds and pay in gold but would "exert all financial influences to protect the treasury" against withdrawals of gold. Morgan agreed but only on the condition that the bonds be 30-year 4% interest bonds and that his syndicate have the privilege of buying the entire issue, amounting in all to upward of $60,000,000. To this the President of the United States agreed. And the National Debt became an instrument for the protection not alone of gold but also of the increasing power and income of the mightiest group of financiers the world has ever seen.

Another word about silver, lest we leave a misconception in the reader's mind.

"Free silver" was important. It was important because had there been "free and unlimited coinage of silver at the rate of 16:1 to gold," this would have given the country at least one kind of money that did not have to be redeemed in gold and would thus not have been subject to the power of Wall Street to cause inflation and deflation for its own benefit.

But "Free Silver" would not have given the nation a scientific or right monetary system. Indeed it is doubtful whether in the long run, had it been adopted, it would have turned out any better than the Gold Standard. For like gold, silver is a single commodity subject to be bought and sold and hence hoarded and released from hoarding. And like gold, there is absolutely no reason under Heaven why anyone in his right mind should expect that the production of silver mines will over any period increase in the same, or anywhere near the same, ratio as the production of real wealth—i.e., of the goods and services the people need and use. Therefore, the same basic and absolutely indisputable arguments which apply against tying the whole economic system of a nation and the destiny and happiness of its people to one commodity apply alike against both silver and gold.

Indeed, if we were compelled to select any one commodity and determine the value of all other commodities and labor and everything else in terms of it, Vitamin B would be a far more sensible selection than either gold or silver. For there probably does exist some relationship between the amount of Vitamin B in our country, and our capacity to produce, exchange and distribute wealth. Whereas there exists absolutely no relationship between our capacity to do these things on the one hand, and on the other hand the presence or absence of either white or yellow metal in the ground, on top of it, or even at Fort Knox, Kentucky.

But the subject of our book is the National Debt and we have wandered perhaps a little afield. What was happening to the National Debt during those golden days of the National Bank Act and the Gold Standard?

It was remaining remarkably constant in total amount. From a maximum of $2,677,000,000 in 1865 it was gradually reduced to $961,000,000 in 1893, the year before Cleveland's administration was compelled to start selling bonds to the syndicate bankers in order to bolster the gold reserve. It then climbed to $1,436,000,000 in 1899, under the necessities of the Spanish-American War. It was reduced again to $1,178,000,000

in 1902. From that date to 1916 it did not vary by so much as $100,000,000 from that figure.

But the important thing is that the National Debt should and easily could have been paid off once more during that time. Up to 1890 there was income from the sale of public lands, although the Homestead Laws reduced this remarkably, of course. There was opportunity all this time to pay it off out of taxes, for never in all history have fortunes grown so fast or become so great. By purchasing silver at market prices and coining it as has been done with less than $1 worth of silver in each "silver" dollar, the government might readily have made sufficient profit to contribute substantially to paying off the debt.

Why weren't any of these things done?

No man can say for certain. For none can interpret certainly the thoughts and the influences of a whole period. But this much we do know. Had the National Debt been paid off, the very profitable opportunity of national banks to make two dollars of interest-bearing money appear in their hands for every one dollar of the National Debt would have been gone. And we may be sure that whatever influence they had was used, not to see that their nation became free from debt, but that at least a "reasonable" amount of public indebtedness was maintained. Such will always be the effect of a system which makes it possible for the debt of a whole people to be dealt in by a few people for their own private profit or which enables anyone—be he banker, broker or blacksmith—to buy with money (or any substitute for money) which he has created, interest-bearing bonds of a national government.

There are those who today complain most loudly about the increasing National Debt who would be the very last to wish to see our nation completely free from debt. For the manufacturing of money for the government is a very good and safe business indeed. Especially when one is paid in interest-bearing bonds backed by all the resources of the United States.

During the period of the First World War the United States acquired for the first time in its history a really big National Debt. The debt increased from $1,225,000,000 in 1916 to $25,482,000,000 in 1919.

The total increase in the National Debt during the World War, large as it was, will thus be seen to be nearly $8,000,000,000 *less* than the amount of *one* appropriation bill enacted by Congress in February 1942, and some $16,000,000,000 less than the amount of the huge war appropriation bill of June 1942!

Nevertheless the per capita debt was increased from $11.96 in 1916 to $250 in 1919, and the problem of paying interest upon the public debt and providing for the retirement of the principal became one of concern to the people. Tremendous progress could have been made in reducing the debt during the period of the Twenties had not the central feature of governmental financial policy at that time been the reduction of taxes—particularly those in the higher brackets. Even as it was, more than $9,000,000,000 of the debt was paid off between 1919 and 1930, due partly to the generally prosperous condition of the country during that period. Had the income tax rates in effect when President Wilson left office been continued a far greater reduction might have been effected.

There were, however, other reasons why the National Debt was being somewhat reduced during the Twenties. Those were the years when prosperity was being bought at the price of the certain coming of a day of reckoning. The same underlying factors that have caused the very great increase in the public debt under the New Deal were at work during the Twenties for there was then as there has been since a continuous failure of American industry to distribute a sufficient buying power to afford itself a market for more than a major fraction of what it can so readily produce. But during the Twenties this necessary additional market was furnished by several devices none of which directly increased the National Debt. They were "shots in the arm" of the most temporary and unsound character but

they gave the appearance of prosperity to the nation for a while. These we shall discuss in the next chapter.

In 1930, not 1933 as generally supposed, the National Debt started up again. It increased by about $600,000,000 in 1930, by more than $2,500,000,000 in 1931, and by over $3,000,000,000 in 1932. So that from June 30, 1930 to June 30, 1933, the debt went from $16,185,000,000 to $22,538,000,000. That was prelude to the New Deal. It happened under an administration that had no belief whatsoever in the effectiveness of governmental expenditures in combating depression. This six billion dollar increase in the National Debt took place at a time when President Hoover was doing everything on earth he could to cut government expenses to the bone. But receipts fell even faster than expenditures and the depression got worse and worse. The purchasing power of money (what there was of it) was increasing by leaps and bounds. The monetary value of everything else was going down just as fast. Something—in fact several things were wrong.

In 1933 Franklin D. Roosevelt became President. New things began to happen. Among others the National Debt began to increase even faster than before, so that by June 30, 1940 it stood at $42,061,000,000, an increase of over $20,000,000,000 over 1933. The National Debt in most people's opinion had become one of America's great problems.

Other things were done too. The gold content of the dollar was reduced—that is, more dollars could be made out of the same amount of gold. Theoretical title to all gold was taken by the Government (and then claims against the gold in the form of gold certificates were promptly given to the Federal Reserve Banks!). Gold redemption of money was suspended.

And so we find the New Deal of Franklin D. Roosevelt trying to break away from gold and in a measure succeeding (though the break will be far from complete until every gold certificate has been replaced with United States currency, redeemable in goods and tax receipts and everything else of real substantial value but bearing no relationship whatever to gold or silver or even Vitamin B). And yet we find that same administration

not only depending quite completely on the Hamiltonian system of basing the money of the nation on the National Debt, but also finding new arguments to justify such a course.

We shall not have either a workable or a scientific monetary system until the medium of exchange of the American people is governed entirely by the need for such a medium—that is, by the production, distribution and exchange of goods and services, rather than by the amount of either gold or interest-bearing debt in existence.

The reasons for the colossal increase in the National Debt under the Roosevelt Administration are the subject of our next chapter.

But let us say here at least this much. Something happened in the early Thirties that was more than the coming of a new administration to power. It was more than a New Deal. It was a basic change in the point of view and the methods of our whole country. It was as important as the Revolution and Alexander Hamilton, as important as the War Between the States and Abraham Lincoln, as important as the exhaustion of the Free Land Frontier. In fact, the change really took place not in 1933 but in 1929 as has been previously suggested. The period of "automatic adjustment", of prosperity that "just happened", of boundless national optimism was over. America and her people had come to the place where they had to have more than a rich continent, more than courage, more than a basically healthy nation. They had now to think and find an answer.

PART TWO

SOMETHING NEW IN AMERICAN EXPERIENCE

4.

NEW WINE IN OLD BOTTLES

WHAT WAS IT that happened to America after October 1929?

It was something like what happened in the year 1896 when for the first time disappointed and penniless seekers after homestead land started a trek back eastward again, having found that the last good prairie land was gone and that the lands they had tried to farm could not, under the conditions of that time, sustain their families. For two and a half centuries Americans had taken it completely for granted that they could move on West and make a new start whenever they needed to. By the middle Eighties this wasn't true any more. This had been hard for people to understand. These dejected land seekers coming East again symbolized the end of an epoch that had been great because it was full of hope for common folk.

So in 1929 and 1930 America faced for the first time the fact that her old methods of achieving industrial expansion could no more go on forever than could her people's search for fertile farms in the West. Another great American epoch had come to an end. But it was even harder to understand and so when the "New Deal" was born under Franklin D. Roosevelt the most important fact about it was lost upon most people. That fact was that America was refusing for the first time to go through bankruptcy. The people seemed to realize—subconsciously though it was—that to attempt to wipe out the topheavy debt burden on the producers of the nation by the bankruptcy method would threaten and maybe sweep away the basic social structure of our country. We reacted in accordance with the most fundamental law of life—the law of self-preservation.

But, of course, we didn't like to admit this. We liked the good old days. We went to movies like *Little Women* and couldn't

quite understand why we had a tendency to tears. It was because we knew instinctively that times like those were gone and were not coming back. They weren't coming back because of the increasing division of labor, the increasing inter-dependence of people, the complete absence of a free land frontier, the tremendous obstacles to people of small capital in surviving a depression and starting over again—because all these meant that the country just couldn't stand again a period when government stood by and watched the credit structure collapse.

And periods of bankruptcy were the price that had to be paid for laissez-faire. (Laissez-faire means "let alone". It means the government lets the economic life of the country alone no matter what happens to it.) For under the debt-money system periods of "boom" brought about by uncontrolled private credit expansion must always have as their counterpart periods of depression and unemployment when corresponding credit contraction takes place and when the insupportable debt burden built up during the boom is allowed to collapse and be written off in the bankruptcy, economic hopelessness and loss of independence of millions of "little" people—and some "big" ones too. (The ancient Hebrews had a better way. Every seven years they just canceled all the debts and started over. But the farmers didn't have to give up their farms and other debtors didn't lose their shirts. So their system worked.)

Perhaps Americans of the early Thirties realized something else too. Perhaps they realized that it wouldn't do any good to go through bankruptcy. For some new knowledge was being borne in upon us—things we had never faced up to before. The fact was that only by the use of the most illogical and in the long run utterly unsound measures could prosperity and industrial expansion be supported so long as the orthodox monetary and financial system stood unchanged. Some of those illogical and unsound methods of attempting to make the economic system "add up" had already been tried.

War, for example. It is certainly true that World War II would probably never have taken place had it not been for the rise of Hitler to power in Germany, his dreams of conquest, and

those of the Japanese military. But from a purely economic point of view we must face the ugly fact that the coming of the First World War did save the United States from a depression that was all ready to come upon us in 1913 and early 1914. And the Second World War did bring about full employment in our country—a thing we had not had for many, many years. And the reason is a comparatively simple one.

Here it is: *only at times when from some source a net addition to the purchasing power of the people generally over and above that paid out currently by industry has been put into circulation has there been anything like full employment and prosperity in recent times.* For when industry working at less than capacity expands output it never distributes enough buying power to enable the people to buy the increased amount of goods it turns out. Fixed charges—that is, interest on bonds, rent and things like that—don't go up just because the company is producing more goods. So no more—or very little more—is paid out for these things. Wages don't increase in proportion to the increase in the amount of goods produced. And there is no need for additional investment since the plant has not been running at full capacity anyway. Even dividends may not be increased. So it is almost always true that modern industries can increase their output of goods without anything like a corresponding increase in the amount of money they pay out in wages, interest, rent, or dividends into the hands of consumers.

So something else has to happen to make up this deficiency of consumer buying power or the goods can't be sold.

During a war the government borrows a lot of money and spends it on armament. Armament is something the people can't buy but they get wages for producing it. So all the other industries have this additional buying power to add to what they pay out themselves. And it keeps them going by giving them a market.

So a war is one of the illogical and certainly tragic ways the economic system can be got to "add up".

Of course the price of it among other things is a tremendous addition to the National Debt.

But war isn't the only way that, in pre-New Deal times, kept us going.

During the 1920's which was supposed to be a period when everything was working just fine, some rather funny things happened.

For example, if we include the World War debts, America gave away up to 1929 about $22,000,000,000 worth of goods. That is, we produced them, shipped them abroad and never got paid for them. We gave foreigners that amount of buying power over American goods. This was one way of "developing" a market. Part of it was the result of the sale in the United States of very worthless foreign bonds during the 1920's.

Another thing that happened during that period was that state and local governments increased their indebtedness by $10,000,000,000. This money of course was promptly spent and most of it went into the hands of people who in turn spent it for goods. Also during the 1920's the consumers of the United States went into debt in attempting to buy goods by installment payments to a total amount, by 1929, of $10,000,000,000. That is another way of saying that the American people took off the market $10,000,000,000 more of goods than they had the money to pay for.

These were some of the stop-gaps that made it appear that all was well and gave a false sense of security to the American people until the crash of 1929.

But the crash of 1929 did come and it brought with it a deep concern over our economic future which we had never felt before. This "depression" seemed to be more like an abyss than a depression.

For example: we were afraid of machines—the very machines we had been so proud of—the machines that had given the people of the United States "the highest standard of living in the whole world". Why was this?

We were afraid machines were going to take more and more jobs away from people. We were right back psychologically to where the hand spinners of England were when they started out

to smash all the "jennies" in that country in the early days of the Industrial Revolution. We feared machines because, with monopolies at work and a money system that only produced new buying power by increasing debt, machine production was always outrunning consumer buying power.

If it had not been for the presence of monopoly on so large a scale in American industry, we might not have felt as we did about machines during the Thirties.

For machines probably would not create unemployment if it were not for the fact that many of the machines are controlled by monopolistic concerns or combinations. Technological improvement without monopoly might not mean unemployment. But monopoly plus the machine and technological improvement does cause unemployment because it maintains high prices and restricts output. Competition cannot do either of these things even if it wants to. Monopoly siphons off the benefits of the machine into huge corporate surpluses made possible by excess monopoly profits.

Under conditions of true competition, the benefit of the machine would go to the consumers in lower prices and to the producers engaged in larger production of other goods for which consumers would have purchasing power which they did not have before. So the way to overcome our fear of machines is to break up monopoly power where it exists. This is the main argument for pressing the work of the Anti-Trust Division of the Justice Department and for such enterprises as the Tennessee Valley Authority, which have the effect of breaking down monopoly price structures and reducing the cost of goods and services to consumers.

The Brookings Institution is responsible for the estimate that between 1922 and 1929 the output per worker in the United States increased by 18 percent. That meant that one of three things had to happen. Either the price of goods had to decline 18 percent so that the people would be able to buy 18 percent more goods with the available supply of money; or else there had to be created and put into the hands of people who would spend it, 18 percent more money so that the consumers could

buy 18 percent more goods at the old prices; or else 18 percent of the workers had to be fired and production brought down to where it had been before. Unless one of the first two things was done it would be necessary to fire workers because industry could produce as much as it did before with less people. All of these figures are, of course, rough and general.

Monopoly control of industry prevented a reduction of prices. Monopoly control of finance prevented an increase in the volume of money in circulation. So the third thing happened and a lot of people lost their jobs. Speaking on the basis of our experience, the right solution of this problem did not lie in the general reduction in prices. That has never worked practically in a free economy. We can look at the history of our country over a long period of time and we shall find that never has there been a period of prosperity when the price level was going down. Furthermore, as John Maynard Keynes, the noted English economist, has stated, over a long period of time there has been a tendency for the wage unit to rise constantly. In other words, the answer to machines and to increased technological efficiency is increased buying power for the common people. The central question is then: shall the additional money needed to supply this increased buying power be provided by governmental creation of the money or must oppressive debt always intervene and bring collapse and depression in its wake.

And just to keep the central theme of this book before us in relation to this monopoly problem, it is pertinent to point out that if the buying power of the dollar is effectively kept at a constant level and if the people as a whole through their Congress are free to exercise the power to create money when economic circumstances demand it—then the very greatest of all forces working for monopoly and the destruction of true economic liberty will have been removed. For no power on earth makes monopoly control of real wealth so easy as the power of private bankers to create money. Chapter VI will explain exactly how they do this. Had the big city banks not been able to create the finances out of thin air it would have been much more difficult for competing firms to be bought out as was done in so many of

our American industries or for control over these industries to be taken over by financial concerns. And nothing has contributed as much to the destruction of small-scale business as changes in the purchasing power of the dollar. For it has always been in times of deflation, when the dollar became more and more valuable and real farms, real food, real machines, real merchandise less so—it has always been at such times that farmers have lost their farms, and banks and insurance companies have become our landlords. And it has always been at such times that little businessmen have gone to the wall leaving their financially powerful competitor in a position to control an even greater share of the market when the cycle turned upward again.

The American Federation of Labor submits these figures: that families, with incomes of $1250 and less spend each year more than they receive. On the average all these families go in the red every year. National Resources Planning Board figures agree with this. They say these families spend about $92 a year more than they take in. The American Federation of Labor proceeds with figures in their monthly survey of business for the first quarter of 1942, in which they say that families with incomes of $3,000 and less spend 99 per cent of their income, and that families with incomes of $20,000 and above save 51 per cent.

Unless those savings are promptly invested in new capital goods, they cause a net withdrawal of that amount of money from the market for goods. The demand becomes short relative to the supply.

But by 1929 we had come to the place where one-third of our people could produce all of the necessities of life needed by all the people. And unless all the people were able to consume their share of those necessities, even that one-third couldn't keep their jobs. We had a vast excess of unused capacity in industry and yet technological improvement was increasing our power to produce every day. (Of course what happened in this respect before the war was as nothing compared to war expansion.) So the

savings of the nation were not flowing into new capital investment. Hardly a single businessman wanted to see additional capacity in his own industry. Oh, yes, they wanted to see somebody else expand; they welcomed capital expenditures made in another industry. But not in their own, because they felt—and in many cases rightly—that there was already enough unused capacity in their particular field to more than supply the demand for that product. What those businessmen needed was more demand for the goods they had capacity to produce and sell. For that demand and it alone is the thing that makes "investment" sound and valid. So, we had to consider this question of unemployment primarily from the standpoint of that consumer demand, and to realize that the only answer to it in peace times is a higher standard of living for the people generally.

As a theoretical proposition it is true of course that if all the savings of the people who can save were invested currently in any given year, everything would be all right for that year. But the next year we would have additional capacity to turn out more goods and this would require an additional buying power to match it. Under the present money system the only way buying power can be increased is by expansion of someone's debt. Nearly all our money is created by the banks writing up demand deposits and using them to make loans at interest. But debts cannot expand forever. Thus what has happened all through our history has been that periodically there has come a collapse and the savings of the country as well as its debts have been largely wiped out, property values have been cut in two and misery has spread among the people.

One cause of the visitation of such events upon our people is the following. Whenever those who control the creation and destruction of our bank-deposit money discover that the purchasing power of money is going down and prices rising, they will be likely to try to do something about it. They will seek to prevent their particular commodity—money—from getting too cheap and, as they did in 1920 and 1929, they will withdraw from circulation several billion dollars of bank credit which is all they have to do in order to increase the value of money and

drive down the value of everything else. The Federal Reserve System was supposed to stop this. But it certainly didn't succeed very admirably between 1929 and the outbreak of the war.

After the deliberate deflation of 1920 had destroyed the prosperity of American agriculture nothing effective was done to restore it through the whole period of the Twenties and early Thirties. But, as we have seen, new ingenious ideas were evolved to save industry, which had the ear of Government. There was the sale of worthless foreign bonds to an unsuspecting public, the increase of state and local public debt and the expenditure of the money raised in this way. There was the high pressure salesmanship by means of which consumers were induced to buy beyond their means to the amount of about $10,000,000,000. Vast amounts of credit were created by the banks—especially in New York—to finance pure stock market speculation. The thing held together until 1929, when it began to become apparent that the bonds were no good, that the foreign debts would not be paid, that the same was probably true of the consumer debts, and that stock market values had been shoved way out of line with real values. Then the bubble burst. Such methods of attempting to increase the market for America's expanding production had failed. It is to be hoped that they had become discredited.

Then came the New Deal.

The New Deal meant vastly different things to different people. It brought forth both hymns of hate and paeans of praise. Neither friends nor enemies have ever known exactly what the New Deal was and if they had found out it would have changed materially too soon for the knowledge to do much good.

But the analysis of our economic ills which underlay many of the policies of the New Deal in the early years was consistent and was briefly this: The depression was caused by failure of the buying power of the people to keep up with the inventories piled up by an ever more efficient productive machine. Therefore, by a program of public works, loans and grants to farmers,

and a variety of other methods the attempt must be made to increase consumer demand, which is and must always be the one and only mainspring of production.

The New Deal analysis was fundamentally sound up to a certain point. As long as the New Deal followed it, we had improvement. Improvement stopped when in 1937 the opposite policy of retrenchment was temporarily adopted. And "deficit spending" had to be taken up again in 1938 though with less confidence and more complaint.

But there is no essential difference between what the New Deal tried to do and what had been done before in one way or another in every prosperous period in American history, except that under the New Deal a deliberate attempt was made to get the money into the hands of the poorer group of Americans who would most certainly spend it.

The central idea of the New Deal, then, was not altogether new. It raised money by increasing federal debt instead of state and local debt and generally it paid people for work to increase consumers' buying power at home instead of giving credits to foreign countries for them not to pay back.

But the whole thing still depended on debt—either private debt or public debt. And private debt couldn't get us out of the depression for the simple reason that you can lead a horse to water but you can't make him drink.

The Federal Reserve Board can reduce reserve requirements or buy some government bonds and thus put more loanable money into the banks. But so long as we depend on the banks creating and loaning money at interest for our supply of active buying power this is not enough. For not only must the banks be willing and able to make loans but it is also necessary to get people into the Vice-President's offices in the banks who are willing to borrow. And there is just no way for a Federal Reserve Board or even for the government to do these things.

To make matters worse, the big corporations of the United States aren't, generally speaking, in the market for loans or even for investment funds to anything like the extent that they used to be. Here are some figures to show the truth of that statement.

In the years 1935, 1936 and 1937 American industry spent $17,-400,000,000 for additional plants. That much new brick and mortar was actually put together and machinery installed in it during those three years. But of that amount $16,000,000,000 came from what are called "internal" sources, which means the companies already had the money they needed for the expansion. This $16,000,000,000 came out of corporation savings or out of their depreciation accounts which in practice may amount to a good deal the same thing. In other words, these plants had already been paid for by the consumers who bought goods from these companies. All this adds up to the fact that we can't any longer rely on expanding bank loans to get us out of a depression.

So the New Deal started out to deliberately use the National Debt as the means of increasing the volume of money in circulation, and hence the consumer buying power of the country. And here are the figures on the increase in the debt year by year after 1933.

TOTAL PUBLIC DEBT

1933 — $22,538,000,000
1934 — $27,053,000,000
1935 — $28,701,000,000
1936 — $33,545,000,000
1937 — $36,427,000,000
1938 — $37,167,000.000
1939 — $40,445,000,000
1940 — $42,971,000,000
1941 — $48,961,000,000
1942 — $72,000,000,000, plus

As was explained at the end of the last chapter this business of increasing National Debt began in earnest during the Hoover Administration before the New Deal was born. But under President Roosevelt there came into the councils of government a new idea about the debt. It wasn't quite the same perhaps as Alexander Hamilton's idea. But it was pretty near it. The Public Debt was the means of furnishing an inducement to get the banks to create new bank deposit money. And it was additional money that was needed. Hence, a certain school of New Dealers

began to preach the doctrine that whether or not a public debt was exactly a public blessing, at least it was not a bad thing.

Of course, the New Deal deficits are not so very hard to explain if we couple up its insistence on "getting more money out" with its consistent refusal to touch the privilege of private banks to have a monopoly of the right to create money. The fact was, of course, that when the crash came in '29 and America faced her second great turning point in half a century, the country was depending for its medium of exchange on the willingness of banks to create new deposits in order to loan them to willing borrowers. But for a variety of reasons this system just wasn't working and probably couldn't work. The volume of "self-liquidating business loans" which were supposed to be the main way of getting an increased money supply into circulation had declined sharply and there were fundamental reasons for this. As has been said, the big industries by and large didn't need to borrow money. They had more reserves of their own than they could use. And little business just wasn't a good risk—not unless and until general trade conditions improved. And those conditions could only improve when consumers got more money to spend. And that money was supposed to come—indirectly—through the bank loans to business to finance production. So there was a vicious circle. And so, said the New Deal, if the private manufacture of money for the making of private loans won't work, we'll use the private manufacture of money for the purchase of Government Bonds. It was a means of using the National Debt to get the additional money created that the nation needed. This basically explains the New Deal deficits.

What "pump priming" meant from the monetary standpoint was that if the sale of Public Bonds to banks for new money could get an increased volume of consumer demand started, then maybe the banks and some private business borrowers would get together. But they didn't. Not until the War came and deficit financing reached many times what it had ever been in peace time did the pump really start to prime. And even then a very large fraction of the financing of industrial expansion was by means of government loans, not private bank loans.

And no wonder. For the government had offered the banks a safe and secure income from the purchase of the National Debt (Bonds). And this had certain very decided advantages over making risky loans to little or even big businessmen. Furthermore, Mr. Jesse Jones had got started on the greatest single money-lending enterprise in all history—through the R. F. C. and its various offspring. So the government was in the banking business where it didn't belong and it was there primarily and basically because the banks were in the money-creating business where they didn't belong. The R. F. C. secured its funds by selling bonds, notes, and debentures to private finance companies which created the money to buy them with. Then the R. F. C. made the loans which the private banks ought to have been making.

But the main fact was and is clear. The reason for New Deal deficits prior to the coming of the national defense program and the war is found in the fact that it was trying to make a 19th Century monetary system fit a 20th Century production system. And only by a constant increase in the National Debt could this be done.

When war broke out in Europe in September 1939, and especially when our own country was attacked by Japan in December 1941, the stark fact of war became the one overwhelming consideration. Whatever may have been the New Deal theory about the public debt or the reasons it had risen so rapidly before, it was now evident that, barring some of the reforms this book is advocating, the public debt would go clear through the roof of every conception of its possible size that anyone had ever had before. America, through most of her history, had had to pay but scant attention to her National Debt, and had cherished the hope of paying it off completely by orthodox financial methods. But now she found herself compelled to recognize the National Debt as one of her two or three very greatest problems—next of course to the war itself.

For the war would increase the debt to $200,000,000,000—maybe even to $300,000,000,000.

And what would come after the war? Would we begin again

where the New Deal left off before the war? How would we maintain employment after a possible brief post-war boom? Would it be by "a shelf of public works"? If so, how would we finance it and what would happen to the debt?

America's whole future, the future of free government, democracy, and all the rest of the things we were fighting for depended upon our finding a sensible answer to this National Debt business. Indeed, the validity of the bonds already bought and paid for by the people would depend on that same thing. But the answer to these questions could not be such as would hamper in the slightest the war program of our country. For we were up against totalitarian nations which disregarded the rules of orthodox monetary methods and had been using the supreme power of the state to exact forced loans from their people and to conceal completely from them how big their National Debt was.

And so as war broke upon America her people faced a problem with regard to the credit of the nation, her National Debt, her whole economic and financial future which is as completely different from anything in our experience as would be an air raid upon our cities. As was said in conclusion of the last chapter: "Americans had now to think and find an answer."

5.

TOTAL WAR AND "AN ECONOMY OF THINGS AND MEN"

In the early years of Hitler's rise to power and of his regime in Germany, he founded a legend among the German people. The legend was that he had the answer to unemployment, that he could put people to work, that he knew how to overcome the financial barriers and obstacles to full production and employment which were defeating the democratic nations in their attempts to put their people to work.

Much has been written about Hitler and his financial system. It has been freely and often predicted that Germany was on the verge of bankruptcy—when she wasn't. And on the other hand some American advocates of "monetary reform" appear to have let themselves believe that the things they hoped for were being practiced in Germany. Hitler, of course, has demonstrated that it is not necessary for a nation to have gold to back its money. But few really adult minds needed such a demonstration. And while it is true that Hitler got along largely without gold, it is also true that he grabbed as much of it as he could lay his hands on in Czechoslovakia and elsewhere. What he would have done had he had access to gold is an open question.

It is most difficult, of course, to secure absolutely reliable information about events in Germany under the Nazis and this chapter must be read with that thought in mind. It is moreover earnestly to be hoped that the day will come in the not distant future when these things that are written here in present tense about the Nazis will be, instead, things of the past. This, too,

must be borne in mind as we proceed to consider the situation as of that fateful year 1942.

A careful examination of such facts as we are able to get does not bear out the legend of new and magical methods on Hitler's part. Instead, it reveals a picture of the Nazis conducting a gigantic government spending program, using deficit financing on such a scale as was never thought of in America until the war came. It reveals the use of the power of the Gestapo as well as other means to siphon the savings of the people back into the hands of the government thence to be spent on armaments. The true facts about Germany seem to show us the Nazis making it possible for bank stockholders to enjoy a larger income than ever before and requiring the people to bear a burden of debt that mounts faster than the debt of our own country. The total amount of the public debt of Germany has not been known to the people generally since the Nazis took over and figures on it have not been published at all since 1940.

Let us examine, then, what methods the Nazis have used to bring about their one great and admitted accomplishment, namely, the forcing of the German economy to the fullest productive effort, the marshalling of every resource and the employment of all her people—as a preparation for total war. And let us see not only the kind of thing we must compete against if we are to come off victorious, but let us also set forth clearly the inherent advantages that Hitler or a like dictator will always enjoy over a free people and their government so long as debt money rules the economy of men.

The Nazis wanted, first of all, to achieve full production in Germany—primarily for war.

They had absolute economic as well as political power. And they had one sound principle which they applied at the start. It was this: that as long as production of goods can be increased, money in circulation can and should be increased too and in the same ratio as the goods.

This was the general policy followed up until practically everybody in Germany was working at something or other and until all machinery and equipment were going at full speed.

Thereafter, since the Nazis desired to devote a greater and greater proportion of production to preparation for war they undertook to continue to have additional credits created to be spent largely upon armament but, in order to prevent inflation of prices, they imposed rigid price regulations on all commodities and levied taxes that fell with especial weight upon people in the middle and lower income groups. Then they proceeded to force the investment of practically all surplus funds of the people in government bonds so that what they really had was a system whereby they were constantly taking out of the consumers' buying power stream just about as much money as was being created. In this way they were able to shift more and more of the production of Germany to war industries.

Contrary to a widespread idea that Hitler has nationalized the financial system of Germany, or supplied the monetary needs of the nation by means of governmental issue, the exact opposite appears to be the case. Methods of financing used in Germany have apparently been the traditional methods of finance capitalism. But with this all important addition—that there has been dictatorial power which was strong enough to continuously recover practically all the savings of corporations and individuals by what amounted to forced sales of government securities. Because this was true the government could go on issuing new bonds and notes and selling them for new bank deposits on the books of the German banks, so long as no limit was set to the increase in the public debt. For if any volume of government expenditures of new money resulted in undue profits or savings in the hands of the public those funds were quickly recovered by the government, by the simple process of having some Nazi agent call on the firm or person in question and indicate that it would be "a good idea" if they bought government bonds of a given amount. This, of course, was equivalent to a command; it was also a means of preventing an inflation of bank deposit money.

Thus the Nazis were not only continually paying the German banking system for creating additional deposits for the government to spend just as we have been doing here, but they were

able to recapture through bond sales to the public as well as by taxes any proportion of this new money which the government desired to recover.

All this, of course, depended on a continuous expansion of the public debt, but since the Nazis enjoyed absolute power there was none to question this or to protest against it. Furthermore the full extent of the debt was never known by the people, and since 1940 no pretense has even been made of keeping them informed about it. When the Nazis came to power the total German public debt amounted to 24,300,000,000 marks; in March 1939 before the outbreak of the war it was 59,000,000,000 marks; and by mid-1942 it was probably somewhere near 150,000,000,000 marks. According to Wallace R. Deuel in his book *People Under Hitler,* the debt of the Central Government alone was 11,000,000,000 marks when the Nazis took over in 1933 and 37,000,000,000 at the outbreak of the war.

The point is that the debt-money system—the system of securing the medium of exchange of a nation by paying financial houses to create it in the form of book credits to be loaned into circulation at interest—will work if price and wage controls can be enforced by decree, if all savings can be continually forced back into the investment stream and if the size of the public debt can be completely disregarded.

Under the Nazi system savings have increased. This in turn has meant the necessity for further increases in the national debt —especially since the government wanted to channel as much investment as possible into armament. The reason savings have increased is because the whole financial system has favored the well-to-do at the expense of the people generally. The inequality between rich and poor has increased under the Nazi regime, according to Maxine Y. Sweezy, whose book, *The Structure of the Nazi Economy,* is probably as authoritative a work on this subject as we have. It is no wonder this is so since this whole financial cycle depends on a continual increase in the holdings of interest-bearing government securities by the wealthy upon which the people as a whole must pay the interest. Nor has that interest been small. Through 1933 and 1934 the long-term rate

stood at 7%. In 1935 it was reduced to 4½% by means of a conversion of the governmental debt into new bonds. But as an inducement to bondholders to make this transfer a bonus of 20% of the nominal value of the bonds was offered them if they converted!

In February 1941 the Vice-President of the Reichsbank made a speech in Hamburg in which he stated that there was no intention of going below 3½% on the nation's medium-term borrowing. So interest rates in America—and in England—have been substantially less than those in Germany.

Furthermore, the tax system has been so arranged that the percentage of the wages of the low-paid workers taken in taxes has been greater under the Nazis whereas the percentage of large incomes so taken has been less than it was in Germany before. Inheritance taxes, for example, have averaged 8% on bequests of 10,000 marks (about $2000) and only 37% at the maximum rate on bequests of over 10,000,000 marks however large they may be.

Even the war did not lead Germany to levy taxes upon the rich to anything like the extent done in the United States. The highest income tax rates were fixed at 65%, those on incomes of 5000 marks (about $1000) at 15%.

Mrs. Sweezy sums up the situation as follows: "The inequality of distribution of wealth and income has increased and wages have been kept at depression levels, while profits have considerably recovered."

Generally the Nazi plan for financing Germany has been to raise about half the government income from taxes and half from borrowing.

Three general methods of securing the borrowed funds have been used; first, borrowing from banks, including the Reichsbank, by the government. So far as can be discovered this has been an entirely orthodox procedure with the banks creating the "money" on their books and the government paying them interest for so doing. Second, there has been the sale of bonds to corporations and individuals. As has been said, various devices and decrees have practically compelled corporations to invest

all earnings above 6% in government bonds. Third, there have been the special bills which the government has used to pay contractors—especially, of course, for armaments. These bills have at times been used to pay as much as 40% of the cost of contracts. They were discountable at any bank and at the Reichsbank. The Nazis contended they did not constitute part of the public debt, but they did bear interest and they were, of course, obligations of the government. Mrs. Sweezy has this to say about such bills:

> "Public works and armament needs were financed by special bills which represented short-term borrowing on the part of the government. The volume of such bills was kept secret in order to prevent other countries from realizing the strength of Germany's long years of rearmament effort. What was clear, however, was that the amounts were unprecedented."

But government debt has not been the only means used by the Nazis to bring debt-money into play as a means of keeping the German economy running at top speed. There has also been a vast volume of private bank loans—always made to the people the government wanted them made to and always for approved purposes. Many such loans have been government guaranteed.

All the banks of Germany were made, of course, subject to the Nazi government. They are controlled by a Credit Supervising Board which in turn is subject to the Minister of Economic Affairs. The Board—which means the Minister—can license or refuse to license any bank. They can refuse to renew licenses. They can base their refusal on such grounds as alleged lack of the proper qualities of character on the part of an official of the bank. Therefore, the credit policy of every bank in Germany is absolutely under government control. This means, of course, that Hitler can not only prevent loans being made by banks which the government does not want them to make, and thus keep too large a volume of demand deposit money from being created, but he can also compel such loans to be made as

he does want made and can require his commercial banking system to maintain a sufficient volume of check-book money in circulation to keep the private industry section of the economy running at any level he desires. This is of tremendous importance because this is where the present monetary system with its dependence upon bank loans for the supply of money has fallen down in the United States. There have been plenty of methods available to the Federal Reserve Board, for example, to bring about deflation of this bank deposit money but no effective method whereby an expansion could be brought about—except the one method of expansion of government debt. So once more the point must be stressed that a Hitler will enjoy a distinct advantage over any democracy so long as the debt-money system lasts. For he can compel the commercial banks to lend and can even find borrowers for them whom he can virtually compel to borrow. We are fighting the greatest war in history to wipe from the earth the absolute control over the lives of people which Hitler exercises. Does it not then follow that we must also develop for our own nation a monetary system that will work better under a free government than under a dictator instead of continuing to rely upon one where the opposite is the case?

The attitude of the Nazis toward the banks has, however, been a very friendly one indeed. There has been absolutely no move toward nationalizing the banking system. Furthermore, the commercial banks in Nazi Germany manufacture check-book money on the basis of fractional reserves just as they do here or in England. The banks are not permitted to carry *more* than a 10% reserve behind their demand deposits in cash, or more than 30% in government securities. This has no doubt been done in order to safeguard the earnings of the banks. And although the government has the power to limit the profits of banks, those profits have apparently been very substantial under the Nazi rule.

Throughout this whole Nazi financial system there is, of course, tremendous opportunity for the high party members to make themselves extremely wealthy—as many of them have done. Their savings unlike those of other German citizens have

not been "mopped up" by the government. Furthermore, the big industrialists—those most important from a military standpoint—have been favored and strengthened in many ways, while the small ones have been forced out of business.

There remains the question as to whether Hitler has made the German Reichsbank a government bank. There is no doubt that up to 1939 this had not been done. Whether it has been done since is a matter of some question. The private stockholders of the Reichsbank up to 1937 received regularly 12% dividends; and dividends to private individuals are still being paid. It does appear, however, that government control and even ownership of the Reichsbank has been increased by the Nazis especially since 1939. This is indicated by the fact that private shareholders have been limited to a 5% dividend and that the State has received an increasing proportion of dividends since 1939. It is probable that by 1942 the government owned the major share of the stock of the central Reichsbank.

But of one thing there can be no reasonable doubt. And that is that whether or not the Reichsbank has been nationalized, the Nazi government has chosen to do its financing by methods which are in very close accord with accepted procedures of orthodox capitalistic finance and has secured the money with which to finance governmental enterprises by borrowing it into circulation at interest rather than by using the power of government to create it.

Indeed Mrs. Sweezy says that "after the war broke out the government financed itself in the traditional manner—by treasury bills, notes, and bonds."

This then is the kind of system against which nations which would be free must contend. It is not against a system that has freed the German people from bondage to debt that we must struggle but against a system which has imposed the kind of dictatorial powers upon the people which alone can make a monetary system based on debt, and full production and employment, exist side by side in the same nation at the same time.

The all-important lesson then for us is that the Nazis removed

very early in the game the monetary obstacles to maximum "all-out" production, primarily for war. And therefore if our nation or any nation would defeat them it cannot do less than that. We cannot say in the face of this Nazi system: "We have produced all the airplanes we can afford to build." We have got to say instead, if we would survive and triumph: "We are producing all the airplanes that our manpower, our machines, and our raw materials can possibly turn out."

How then shall we proceed? How can Democracy achieve all the results of the totalitarians from the standpoint of production without losing the very basis of Democracy itself—open dealing with the people?

The German experience along with others has shown several things to be true. It has shown that the one important thing about money is what it will buy. It has shown how completely unnecessary gold is, how vastly important production is. It has shown that it is possible to put men and materials and production first and to compel finance and money to take a second place.

If Germany collapses internally it will probably be because the people become sick and tired of war and blood and death and because they become ready to revolt against the Nazi tyranny. It might be because she runs out of a number of critical raw materials. It will probably not be because Germany "goes bankrupt" financially.

It is not true that money in Germany has been divorced from debt. It is not true that the Nazis have established the right of the German nation to create its own money. It is not true that Hitler has found an answer to national debt.

But it is true that the Nazis have said and have proceeded upon the saying that no mere financial obstacles should be allowed to stand in the way of full production. They have geared money to production, not production to finance and money. They have put the German economy on this basis: that whatever is physically possible to produce must likewise be financially possible to pay for.

Miss Dorothy Thompson wrote in her syndicated column in a piece entitled *Thoughts After the Fall of Paris,* published June 17, 1940:

> "Hitler is winning the war because he has been fighting it with an industrial and engineering economy, while the democracies have been fighting it with money, or financial economy, and fighting it stingily. We are now following Britain and France in our defense program.
>
> "The Germans did not vote themselves 4,000,000,000 money units for defense. They voted—had voted for them—30,000 airplanes, so-and-so many guns, so-and-so many thousand tons of reserves of oil and raw materials. The German economy is an economy of things and men; the allied economy is an economy of symbols; money. The German economy recognizes that all wealth is in goods, particularly in capital goods, and that these are not created by money, which is only a medium of exchange, but by application of labor to materials.
>
> "The Allies had money but failed to produce goods. The Germans had no money, but did produce them.
>
> "To recognize this is not to accept the mystic race-domination, fanatical, Hitler-worshiping secular religion of Naziism. This economy was not designed by Hitler. Thorstein Veblen, an American, knew all about it; Henry George, an American, knew a great deal about it. As far as Germany is concerned, the man who first saw and practiced the facts about an industrial and engineering economy was Walter Rathenau, the coordinator of the German economy during the last war and he was a Jew whom the Nazis murdered. The Germans were forced into it because they had a will to conquer and no money. But the lack of money proved to be a god-send to them."

Since Miss Thompson wrote those very significant comments on the fall of France tremendous changes have, of course, taken place, some of which are discussed later on in this chapter.

In his book, *The Road We Are Traveling,* Stuart Chase points out that old restrictions of money and finance on the full use of men and materials are being swept aside. He puts it this way:

> "No nation in this dangerous world of 1942 is meekly going bankrupt because some textbook says it ought to. It will go physically bankrupt when it runs out of food, coal, iron, oil, aluminum, and not before."

Mr. Chase is optimistic. As long as the war lasts we will no doubt pay little attention to the textbooks. But once it is over the situation will be different. For although we have said and with a whole heart that we would win the war whatever the cost, we have not said yet that we would pay for it in a sensible way. We have said that there would be no limit to how much we would increase our National Debt in order to win the war. But we have not said that we would provide a reasonable, decent and thoroughly Constitutional method of either keeping down the interest-bearing portion of that debt now or of earning our way out of debt after the war ends.

On August 19, 1940, the writer made a speech in the House of Representatives:

> "Mr. Speaker: Frequently in recent weeks we have heard the charge made that the Nation is about to go bankrupt, and I want to speak on that point today. There are only two circumstances under which it is possible for our Nation to go bankrupt. The first of these is if the Nation consistently and over a long period of time consumes more than it produces. In that way we can go bankrupt. The second is when people who ought to know better and who are responsible for the destiny of their Nation just decide they want to go bankrupt.
>
> "The first of these situations is practically impossible in America. We are capable of a production of about $120,000,000,000 a year of real wealth and I think it is beyond

possibility, except in the extreme case of a very long and protracted war, that we could possibly go bankrupt by that route.

"The second situation is the one we need to worry about. We can go bankrupt if we decide we want to, and we are going to decide whether we do or not right in the Congress. We are going to decide whether the money or national credit of the American people is going to be created privately and bought at interest by the government to finance our defense efforts or whether the Congress is going to do its constitutional duty and coin and regulate the value of money of the American people. If we ever needed a Constitutional monetary system, we need it now."

For many years it has been customary in the United States for Congress to fix by law an amount of National Debt beyond which the Treasury cannot go in borrowing.

On February 19, 1941 this statutory limit for the National Debt of the United States was raised by act of Congress from \$49,000,000,000 to \$65,000,000,000. There was long and exhaustive debate and many Members predicted the bankruptcy and ruination of the country as a result of this action. Their contention was that there was no apparent limit to the New Deal's borrowing; and that no one could as yet see into the future far enough to perceive a time when the National Debt would cease to increase. A few Members pointed out that the continuing increase in the National Debt was due to a fundamental error in our methods of keeping the Nation's books, that a very large proportion of what was being called National Debt ought never to have been debt at all since it represented borrowing from banks of credit that really belonged all along to the people as a whole. The writer of this book offered an amendment to that bill which would have done two things: first, by its terms, Congress would have purchased the entire capital stock of the twelve Central Federal Reserve Banks and thus made them actually and really a national bank of issue belonging to the people of the whole United States. Second, the amendment provided for

the purchase from the Treasury by the People's Federal Reserve Banks of non-interest bearing certificates for the purpose of providing the funds necessary to bridge the gap between tax revenues and expenditures for the National defense. Under this amendment there would have been a debt, but it would have been a non-interest bearing one, for the Treasury would have been borrowing the Nation's own credit from a truly national bank of issue.

In explaining the amendment this argument was made:

> "The one major point which I shall make—and I beg the House to please listen for only four and a half minutes—is this: Whenever credit or money is created against the resources of a whole nation, that credit creation should be performed by a public body and without the contraction of an interest burden or an interest-bearing debt. My amendment is designed for that purpose. Various gentlemen continuously make the point that the Federal Reserve Banks do, to all intents and purposes, belong to the Government. As a matter of fact, of course, the United States Government owns not one penny of the stock of these institutions. But if the gentlemen persist in taking the position they do, then why not purchase for $136,000,000 the capital stock of those 12 central institutions? At present, those 12 central banks create credit, and with that credit they purchase not only the paper of member banks, but also the interest-bearing obligations of the United States. Those bonds of the United States can, under present law, be used as security for an issue of Federal Reserve notes, and those notes are obligations of the United States, though issued by and for the benefit of private banks. Hence, when the Federal Reserve Banks buy interest-bearing bonds of the United States, they obviously buy them with the credit of the people of the United States and of the Government itself.
>
> "My contention is that if any institution in the United States is to enjoy the right to create credit, to create de-

posits, in order to purchase the obligations of the whole American people, that institution should be a public institution; that now, while we are attempting to marshall the resources of the Nation in a great defense program—manpower, industry, agricultural resources—all over the country, we should at least retain the right to use the credit of our own people without the necessity of paying interest on it.

"To those gentlemen who have objected that they do not want to raise the debt limit as we are doing in this bill, let me remind you that if you do not want to raise the debt limit as we are doing in this bill, I offer you here an alternative which is necessary for you to consider.

"May I say, in conclusion, that you have your choice between contracting an interest-bearing debt or a non-interest bearing debt any time you want to make that choice. The provisions of Section 2 of this bill are not the only answers to our problems."

It was absolutely necessary in February of 1941 that the monetary supply of the Nation be increased. It was "necessary" that the debt limit be increased if the only way the additional money was to be obtained was by forcing the people into further debt to the banks. But it was not necessary that the people be forced into further debt to the banks. It was possible then—it is possible now—for the nation to take command of its own credit, to deny specifically that any private individuals or corporations own the public credit, and to finance the war without any further increase in the interest-bearing debt except, of course, that which results from the purchase of War Bonds by the people with money that they have earned and saved.

On March 10, 1942 the House of Representatives passed a bill to increase the lawful limit of the National Debt to $125,000,000,000.

In the course of debate on this bill the writer had these words to say:

"Mr. Chairman, it is true that this bill presents the problem that America faces. In my judgment, it does no good to talk about national bankruptcy. Our Nation is not going to go bankrupt, not as long as our people are able to work and our industries continue to function and our farms to produce. We shall not go bankrupt—not if we have any sense at all. We have got to finance this war and we will.

"Already several Members have spoken of the things I have most in mind to say. In the Philippine Islands there is a little army under General MacArthur that is putting up the most splendid fight that is being put up anywhere in the world today, and this army is partly composed of Filipino soldiers. On the other hand, I noticed a headline in a paper that one of the gentlemen had in his hand to the effect that some of the natives of Burma are actually attacking the British.

"What is the difference? The difference is hope. The difference is the fact that the Filipino people have a hope of freedom; of a better life in the future because of the policies this country has pursued. The people of Burma do not feel such a hope.

"May I point out to you that there are two impulses that drive people to heroic action? One of the impulses is the courage of desperation and the will to survive. The other is the courage of hope and idealism. When you get into a war you have got to have one or the other of those kinds of courage. The first kind cannot come to America until it is too late. What I mean is, when we get to the place where we are fighting for survival, where our own country is threatened with invasion, where all the rest of the world has fallen, then the war will have gone so terribly against us that only a miracle can save us. We have to inspire in the people of America the courage of hope in the future and the courage of a great American ideal. That is part of winning the war.

"Gentlemen have already pointed out the extent of the interest burden that will be involved in this debt. Nor will

the debt stop at $125,000,000,000. When it does go beyond that I hope we will not hang a lot of crape over the matter, but will face the thing as men. It is not necessary to pay interest on our Nation's own credit. To the extent that someone gives up his money to buy Government obligations, of course, interest should be paid to him; but to the extent that a bank creates demand deposits to pay for Government obligations, whether it be a Federal Reserve bank or any other kind of bank, the thing that backs those deposits and the credit of that bank is the credit of the United States itself, its taxing power and the power of the people to produce wealth. The bonds themselves can be used as collateral for the issuance of Federal Reserve notes.

"The simple fact is, therefore, that when bonds are sold to banks for book credit, the Government receives from the bank nothing in the world except a portion of the public credit that belonged to the Government and the people in the first place.

"My plea is only this—that where new credit or new money is created—it should always be the Nation as a whole that derives the benefit from that act.

Now there was further debate on the bill but when the vote was finally taken it showed 367 Members for the bill and not a single vote against it. In her own way by a democratic vote of her national legislature America had decided that there should be "none of the old restrictions of money and finance on the full use of men and materials" for the winning of the war. We had decided that absolutely no financial limitations were to be set upon America's production—that only real limitations, not artificial ones—would be allowed to stand in the way. In other words, by that vote the House of Representatives said that for us, too, the economy would be "an economy of things and men," to use Dorothy Thompson's words.

We did this not because we wanted to, but because we had to. We did it because we were up against an enemy that was doing it and because at long last we realized that whatever the virtue

of democracy, no nation that used only two-thirds of its manpower and materials and machines could ever hope to compete, in war or peace, against another nation whose system forced the full and complete use of all these things.

America was in a war. Her Congress had declared that war. It knew what had to be done to win it. But what most of the Members of Congress who voted to increase the debt limit to $125,000,000,000—and who knew they would vote to increase it to twice that amount before they were through—did not realize was this: They did not realize that the bill they had voted for was living proof that Democracy had to have full employment of its people if it was to win the world-wide war against totalitarianism. They did not realize that they had embarked upon a course that could never be abandoned—even in peace time—if their nation was to win the war between freedom and slavery, the war between the idea that free men can work out their destiny and the idea that an all-powerful state must do it for them, the war between a system that offers people dynamic struggle and eternal hope on the one hand and a system that requires of them slavish obedience, ignorant assent, and fawning adulation of all that is, upon the other.

A Hitler can compel the savings of a people to be placed at the government's disposal. He can control prices and wages. He can compel "surplus" earnings of corporations (above 5%) to be put in government bonds. He can keep the size of the public debt a secret. He can increase the volume of debt money as fast as production increases—or faster if he desires. Above all he can compel private commercial banks to create deposits in any volume he may desire and loan them into circulation to whomever and for whatever purpose he may dictate. If a nation and people want to pay that kind of price the debt-money system will work and will afford to a nation opportunity for full production. Free people just won't pay it—not over the long pull, not unless they are defending their country's very life in a total war.

Neither the average Member of Congress nor the average citizen of this country realized when we virtually abolished our

debt limit that so long as orthodox finance rode the nations a democracy like the United States was under a terrible handicap as compared to a dictatorship like Germany. They did not see that Hitler could make a debt-money system work by the sheer power of his dictatorship whereas the will of a free people who knew all the facts would sooner or later render the continuous multiplication of debt impossible. In short, they did not see the central fact that has caused this book to be written, which is this. That only under dictatorship can full employment and full production be achieved in a nation that must borrow its medium of exchange and the monetary life blood of its economy into circulation and that if a people would remain free and also solve the problem of utterly unnecessary poverty in the midst of unsalable plenty, that people has got to require of its government that it exercise in the national interest the essential economic task and duty of government in this age of power and machines—namely, the task and duty of providing producers and consumers alike with a debt-free medium of exchange of stable, dependable and constant buying power sufficient to transact their business at a level of full production, full employment, and a full market for all the goods produced.

PART THREE

“THE ART AND MYSTERY OF BANKS” AND THE CONSTITUTION

6.

"CONGRESS SHALL COIN MONEY AND REGULATE THE VALUE THEREOF"

"There is no political or economic power more charged with the general or social interest than the power to increase or decrease the supply of money. If the sovereign authority delegates this power to a particular group or class in the community as it has done in large part in this country, it divests itself of a part of its effective sovereignty. . . . The power to coin money and to regulate the value thereof has always been an attribute of a sovereign power. It was one of the first powers given to the Federal Government by the Constitutional Convention. The development of deposit banking, however, introduced into the economy numerous private agencies which have power to create and destroy money without being recognized as creators or destroyers of money by the Government or the people."—Marriner Eccles, Chairman of the Board of Governors of the Federal Reserve System, in a speech to the Ohio Bankers Association (1935).

THE CONSTITUTION SAYS Congress shall have power to "coin money and regulate the value thereof." But Congress does not do either of these things at present. Where, then, does our money come from?

The purpose of this chapter is to show just how our present monetary system works. The next chapter will show how the National Debt is affected by the nature of that system.

In the earliest days money consisted of things which had intrinsic value. Very little "division of labor" existed in those days, which means that most people produced the very things which they themselves used. People could get along without money if they had to. People who sought economic power tried to own as many sheep or as much land as they could. They lived from the real wealth they produced, not from the things they bought with money.

Today people who seek economic power pay no attention at all to sheep or land. What they are interested in is the number of figures in the bank book after their names. This is true because the nature of money has almost completely changed and its relation to real wealth has become an all-important one. We live in a world dominated by machinery where not a single person in society produces more than a small fraction of the goods that he and his family need to consume. No one can get along without the use of some money. And most people produce not one single thing for their own use, but work simply for money income and then buy with that money anything they really need to sustain life.

This is what is meant when we call money our "medium of exchange." Without it none of our economic life could be carried on. It is the cord that ties together all the manifold specialized kinds of production. It is the bridge over which all producers goods must pass to reach consumers. Its central importance to our economic system is so great that we take it for granted and then proceed to surround the whole money question with an aura of mystery and taboo.

Why should this be so? Why should not the facts about a thing of such great and central importance be clear to everyone? They should be, they can be, and the main purpose of this book is to make them so.

Article I, section 8, of the United States Constitution places on Congress the responsibility to "coin money, regulate the value thereof and of foreign coin. . . ."

What do these words mean? First, what is "money"?

Money is anything which people generally use to discharge debt contracts or price contracts—that is, to pay debts or buy goods.

When they spoke of coining money, was it the intention of the framers of the Constitution that the Congress of the United States should have control only over the pennies, nickels, dimes, and quarters? Of course not, and the Supreme Court, in the legal-tender cases, after the Civil War, decided that the issuing of bank notes was the equivalent of "coining money."

But neither coins nor bank notes are our chief money today; for more than nine-tenths of our trade is carried on by means of the kind of deposit currency or demand bank deposits subject to check of which Mr. Eccles was speaking in the quotation at the beginning of this chapter. These deposits against which we can draw checks are actually promises by the banks to furnish money on demand. These promises of banks circulate as if they were themselves money, and perform all the functions of money. Since check-book money does all the work of money, we must call it money for the same reasons that the Supreme Court declared bank notes to be the equivalent of coin.

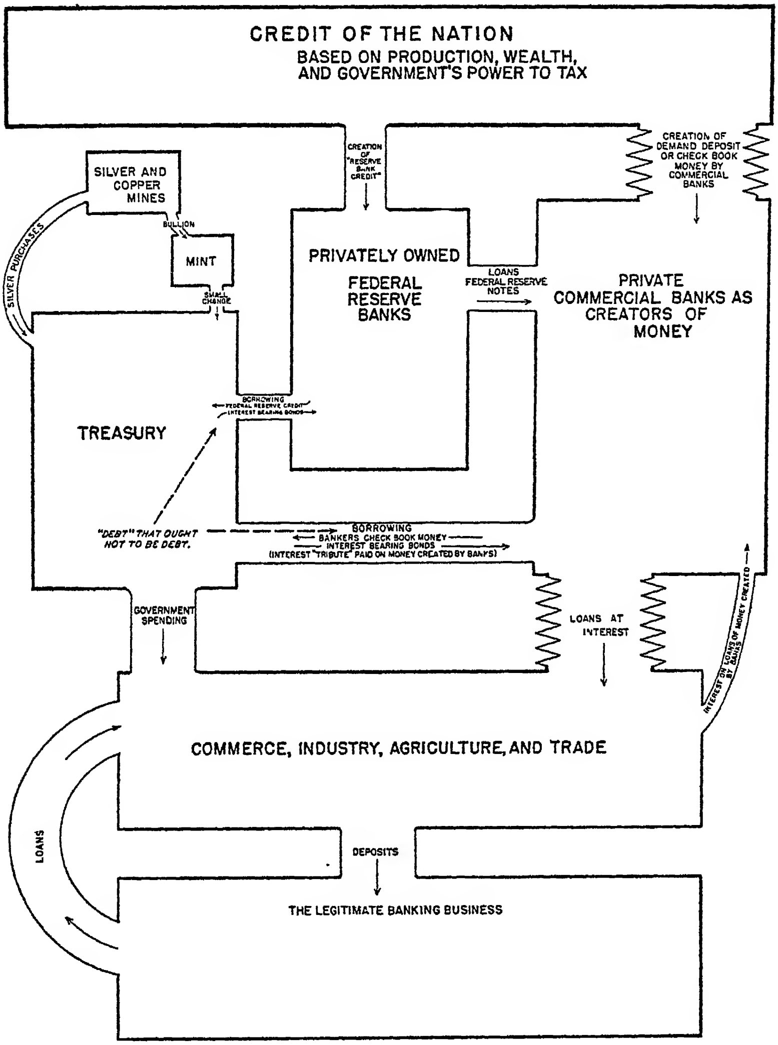
"To coin money" means, therefore, if it means anything, not only the minting of metal coins, but the issuing of bank notes, and the creation of check-book money or any other substitute which performs the function of money.

What has happened, then, to this Constitutional power of Congress? Well, at present the following agencies coin the money of this Nation: (1) the United States Treasury when it issues silver certificates in exchange for silver bought from domestic producers or from foreign producers; (2) the United States Mint when it coins the small change, the pennies, nickels, dimes, quarters, half dollars, and dollars out of metal; (3) the Federal Reserve System when it issues Federal Reserve notes and creates and extends Federal Reserve Bank credit to the member banks of the Federal Reserve System; and (4) our 15,000 commercial banks whenever they create check-book money in the process of making loans.

So it is not the Congress which coins the money of this Nation

but from different agencies, of which the two important ones

SOURCES OF AMERICA'S MONEY TODAY



as many dollars in their vaults as their depositors have on deposit. If the total amount of demand deposits of a bank is \$1,000,000, then the bank must have in reserve to pay the depositors—not \$1,000,000 but \$200,000. Of course, the reason they can do this is because most of our business is done by checks

and not nearly all the depositors ask for their money at the same time.

There is nothing to prevent such newly created check-book money from being loaned to speculators to buy up scarce commodities. And there is nothing to prevent this magical power being used by banks to make capital "investments"—that is, to obtain title to profitable real wealth without giving up anything of comparable value in exchange. Inflation comes about when a lot of banks begin doing this sort of thing all at once.

On the other hand, banks can destroy money as well as create it. If a man has, over a period of time, been in the habit of carrying on his business by borrowing at a bank on his note, and if the bank refuses to renew his note, it has thereby literally destroyed an amount of the medium of exchange of the American people equal to the face of the note. Such action if repeated in enough cases will cause prices to decline, set in motion a deflationary trend, cause unemployment, bankruptcy and distress. But it will increase thereby the purchasing power of interest, which is the one thing, naturally, that those who now create and destroy our money are most interested in. For interest is bankers' income and bankers' profit.

Between 1929 and 1933 there was literally destroyed in this country some $8,000,000,000 of the money of the American people, most of which was and is bank credit. This was accomplished in many different ways, but perhaps the easiest one to understand is our illustration of the refusal on the part of the bank to renew the note of one of its borrowers.

Let us suppose that a man whose credit has been regarded as perfectly good was in the habit of doing business with a certain bank. Let us suppose that he had borrowed $10,000, renewing his note from year to year, and then was suddenly told that he must pay the note in full. Undoubtedly he would have to secure the money by collecting debts owed to him by other people. Assume, further, that he was able to do so. If he did, it meant not only a reduction of $10,000 in the amount of total bank deposits but also a corresponding reduction in the amount of

money in circulation. And while this was happening to this man the same thing was happening to thousands of others.

The important thing now is that, unless we do something to change this situation, the very same kind of destruction of our money is likely to take place after the war.

This process of creation and destruction of money by banks is eloquently described by Mr. Robert Hemphill, former credit manager of the Federal Reserve Bank of Atlanta, who writes in the introduction to Professor Irving Fisher's book, *One Hundred Percent Money,* the following very significant statement:

> "If all bank loans were paid, no one would have a bank deposit, and there would not be a dollar of currency or coin in circulation.
>
> "This is a staggering thought. We are completely dependent on the commercial banks. Someone has to borrow every dollar we have in circulation, cash or credit. If the banks create ample synthetic money we are prosperous; if not, we starve. We are absolutely without a permanent monetary system.
>
> "When one gets a complete grasp upon this picture, the tragic absurdity of our helpless position is almost incredible, but there it is.
>
> "If all the 14,500 banks of the Nation begin calling their loans simultaneously, the aggregate destruction of this synthetic money is enormous. Almost immediately, practically no one seems to have the normal amount of money to spend. The business of the Nation decreases so rapidly that merchants and manufacturers are suddenly compelled to decrease their forces and lower the wages of the remainder. This is a depression. Its severity depends on how many of these loans are called and paid—how much of our principal money is destroyed by the payment of these loans.
>
> "It is a baffling and mysterious disapperance of money—mysterious because, of course, the general public is unaware that the 14,500 banks of the Nation are all busily

destroying our principal substitute for money—bank deposits.

"As the depression deepens, prices and values decline and the banks are forced into further and more drastic efforts to preserve their solvency. Ruthless foreclosure becomes the only doctrine consistent with their self-preservation.

"Our statesmen have consistently declined to study this question and provide a sound monetary system, and adequate permanent currency, scientifically calculated to expand consistently with our increasing ability to produce."

The "value" of our money is determined by what it will buy, never by what it is made of. The best proof of this on a national scale came in 1934 when the President proclaimed that thereafter there would be only 60% as much gold in a standard American dollar as before. Some of the "experts" said a great rise in prices would take place. But it didn't. Prices changed hardly at all. Apparently the people generally realized how little difference it really meant to them how many "grains of gold" an imaginary dollar had in it. Again, does a silver dollar have more value than a $5 paper bill? Just try to get someone to trade his $5 bill for your silver dollar! Or suppose someone offered you a $50 check for a $10 gold piece. Would you take it? Of course you would. Yet the paper on which the check is written is worthless. So is the paper in the $5 bill. And the gold and silver in themselves are worth something.

So it is clear that the value of money has to do only with what it will buy—of food and clothing and shelter and other things. Money is worth just exactly its value in terms of goods and services, or its buying power. Anyway this is what the Supreme Court said in its decision in the gold clause cases in October 1934:

"The question of value in relation to transactions legally available to the plaintiff would require a consideration of the purchasing power of the dollars which the plaintiff could have received. Plaintiff has not shown nor attempted

to show, that in relation to buying power he has sustained any loss whatever. . . ."

That is, according to this decision of the Supreme Court, "value" means purchasing power and that's all. And it's also very reasonable.

Who today regulates the value (or purchasing power) of money? This is the second of the monetary duties which the Constitution places upon Congress. But here again each one of the four agencies just mentioned, the Treasury, the Mint, the Federal Reserve System, and the 15,000 commercial banks, by increasing or decreasing the volume of our money, thereby affects and changes its value. For if there are many dollars in active circulation, the individual dollar buys fewer goods and services than if dollars are scarce. The power of these agencies to affect the *volume* of our money, therefore, gives them absolute power to regulate its *value*. If any proof of this is needed, it is only necessary to recall the disastrous fall in basic commodity prices which followed the drastic contraction of credit which took place between October, 1929 and March, 1933.

Among the agencies affecting, or regulating the value of the dollar the 15,000 banks are of course by far the most important as the quotation above from Mr. Hemphill will show. Most of the larger banks belong to the Federal Reserve System. The Board of Governors of the Federal Reserve System exert a tremendous influence over all these commercial banks. By buying Government bonds from banks in the open market, the Board can give the banks Federal Reserve credit in exchange for their bonds. And since Federal Reserve credit is the equivalent of cash the banks have more cash and fewer bonds after each such transaction. This puts more money into the banks. And for every $1 of such new money the banks can create several dollars of check-book money. The Board has power within certain limits to change the reserve requirements of banks. That is, it can say to the banks that instead of holding $20 of cash behind $100 of demand deposits, the banks now must hold $15 or $24 of cash reserve. In this way the Board can reduce or in-

crease the amount of new bank deposit money which the banks can create. The Board may also fix either high or low interest rates which the banks must ask of their customers, and in this manner either encourage or discourage the creation of bank deposit money. In these and other ways the Federal Reserve Board can to a certain extent regulate the volume of money and thus its value.

And the Federal Reserve Board is a body, appointed by the President, but paid by the Federal Reserve banks in which the United States government owns not one penny of stock but which are owned completely and absolutely by the private member banks of the system.

The idea back of the Federal Reserve Act as finally passed was to let the banking system *be* the money system of this country.

Our banking system was supposed to function on the principle of "automatic expansion." That is, when more goods were produced, the necessary money (or credit) to pay for and move those goods was supposed to be automatically provided through the banks creating demand deposits (check-book money) and loaning it to businessmen. Then later the money thus created was supposed to be "automatically" destroyed as businesses repaid their bank loans after having sold the goods. In this manner, the volume of our medium of exchange was theoretically supposed to expand and contract as the need for short-term or self-liquidating commercial loans became greater or less from time to time. The banks were to "monetize" temporarily goods in process of production or distribution. And this was to be America's money.

In actual practice, however, the volume of these commercial loans has never been adjusted to supply us with the volume of money we have needed for our expanding economy. The system hasn't worked any better than the "gold standard," which is saying plenty. On the contrary, commercial loans, hence demand deposits, hence America's money supply, have been expanded vigorously at the very times when the country did not need more money in circulation, and contracted still more

sharply at times when more money was desperately needed to overcome deflation, bankruptcy and depression. The "system" has worked and must by its very nature continue to work exactly opposite to the public interest of the United States. Moreover, the banks have "monetized" not only commercial self-liquidating loans, but long-term loans and the purchase of securities. In other words, they have created check-book money not only to make loans to business men to finance their production and distribution of goods, but they have also created check-book money in order to use it to buy government bonds, industrial bonds, and title to the real physical wealth of America.

Only the savings of the people ought to be used for such purposes. To permit any private citizen or corporation to create money with which to buy factories, railways, mines, or shipyards produced by the labor and intelligence of others is to violate every principle of decency, morality, and economics. And, most serious of all, perhaps, by creating demand deposits on the basis of long-term loans and investments which could not possibly be collected except over long periods of time, the banks filled their portfolios with "slow assets" which "froze" completely when, in the depression, the banks needed money to pay their depositors. This creating of money and buying long-term investments was, therefore, one of the main reasons for the failure of about 10,000 banks during the depression of 1929. Another reason, applicable especially in New York, was that the banks by creation of new money to lend to speculators sent the stock-market "skyrocketing" and drove prices way above what the real value of the stocks was. So the banks were figuring their assets in the form of this stock at fictitiously high values. This led straight to the stock-market crash, the deflating of these values, and disaster not only for the banks but for everyone else too.

As time has gone on—especially during the period of the New Deal—banks have done less and less of the kind of lending—short-term, self-liquidating loans to business men—which was supposed to be the heart and soul of America's money system. Instead, the banks have gone in for creating money for the

government and the government has gone in for making loans. It hasn't been altogether the banks' fault. As long as Congress allows bankers to take their choice between creating money out of thin air and buying 100% safe government bonds with it or making venture loans to business involving risk and possible losses now and then, it is easy enough to guess which the banks will choose. And they have.

Probably not over 15% of all the banks' business today consists of self-liquidating, short-term business loans. Many businesses are so big and wealthy that they will never have to borrow again. They have cash reserves enough to last them indefinitely. They just finance themselves. Also these huge industrial enterprises can sell securities directly to the public if they really need more money.

What do little businesses do? Just ask a little business man. Mostly he goes without credit. Sometimes he tries the R.F.C.—and almost always gets turned down. Sometimes he tries a bank—and usually gets turned down. For what after all is the use of bothering with him when the bank can lend to Uncle Sam or buy bonds of U. S. Steel or the Aluminum Corporation of America? Indeed so far as the farmers are concerned it is now being suggested that the whole field of agricultural credit be handled by the Farm Credit Administration. And it looks as if either a sharp expansion of credit cooperatives or something like that is necessary if the farmer is to get the loans he needs at a reasonable rate of interest.

The whole idea of how America was to be supplied with her medium of exchange that was the basis of our present system has turned out to be no more than a pious (?) hope. And it, therefore, is utterly indefensible to contend that this great nation must continue to depend for its supply of money upon the hit-or-miss creation of demand deposits or check-book money by our 15,000 commercial banks.

Especially at a time when our national safety is at stake and when the greatest war in history must be financed. And just as especially when we must look forward to meeting the most

serious financial and economic crisis in history when peace returns once more.

"Congress shall coin money and regulate the value thereof," says the Constitution. We are violating this provision of the Constitution in just about every way we can possibly violate it.

Before we go to the next chapter, the writer would like to add a word here lest his attitude toward bankers as people be misunderstood. One of his grandfathers and his father have both been bankers. He believes the average man who runs the bank on the principal corner of the average American town or city, is as earnest as any other citizen. Moreover, he doesn't advocate either in this book or elsewhere that the business of banking should be run by the government. The business of accepting and safeguarding deposits of the people's money and of making sound loans and refusing to make bad ones is and should be a private business.

But the business of creating money—either in the form of cash or deposits or book credits—that is the proper business of government and it alone. When banks or bankers do this they are usurping what amounts to the sovereign power of the people as a whole—they are laying a tax on the wealth and labor of the entire nation. This is wrong.

But generally speaking, it is not so much the bankers' fault as it is the fault of Congress and the people that the present system exists. The main criticism of a majority of bankers should be this: that without understanding or analyzing the present system they fly blindly to its defense every time anyone suggests a change or improvement in it.

The banking business is properly a business of receiving deposits and making loans and investments. The Government's business is properly the business of creating money in the first place. We have at present got it just turned around. The Government is doing—and to a certain extent probably necessarily—the business of banking and the banks are doing the business of government.

When Government creates money but never loans it, and when private banks loan money but never create it, we shall have approached as nearly to an ideal monetary system as it is possible for us to do.

7.

TWENTY-TWO BILLION DOLLARS!

"Banks lend by creating credit. They create the means of payment out of nothing."—Ralph M. Hawtrey, Assistant Secretary of the Treasury of Great Britain.

THE CONSEQUENCES of this failure of Congress to perform its Constitutional duty and the handing over of the money creating power to the banks is solely responsible for the fact that on September 30, 1941, even before we got into the war, our total national public debt, direct and guaranteed, stood at $58,000,000,000 instead of $36,000,000,000. The other $22,000,000,000 of the National Debt on that date was represented by bonds for which we, the people of America, had received nothing on earth except bankers' promises to pay. And those promises to pay were and are of no validity whatsoever unless the people make them good.

This chapter is about that $22,000,000,000 of National Debt which never should have been a debt at all. The amount of the debt-that-ought-not-to-be-debt is increasing faster than ever, as this book goes to press. We are obligated for more of it practically every time a government bond is sold to a commercial bank.

Reasonable people will agree that when one party goes into debt to another party, something of value possessed by the creditor should be transferred to the debtor. And then the debtor of course agrees to repay this thing of value, with interest. Reasonable people will also agree with this principle: *no government any place, any time, ever should borrow credit created by a private agency.* In other words, if the government is to borrow money, it should borrow money.

The only good reason for the government's borrowing at any time is because it is a national necessity to transfer a given amount of already existing money (either cash or bank deposits) from private hands to those of government. Such a necessity can arise only when all resources, labor, and productive capacity are fully employed and when it is for some reason important to reduce consumer expenditures and correspondingly increase government expenditures for certain purposes, such as national defense or war.

This is the only sort of circumstance under which and the only manner in which a sovereign and self-respecting government of free people should ever borrow at interest.

Let us repeat. Government should never borrow anything but real honest-to-goodness previously existing money or credit.

When John Doe buys a defense bond, he pays the Treasury for it with some of his money which he has earned and saved. The Government has that much more money and John Doe has that much less. Everybody knows all this, of course.

But everybody does not know that there is another kind of so-called government "borrowing" which is not really borrowing at all. It is, to speak plainly, a process of subsidizing private financiers in order to get them to create money. In testifying before the Banking and Currency Committee of the House in 1935, Mr. Eccles, Chairman of the Federal Reserve Board, said:

> "In purchasing offerings of Government bonds, the banking system as a whole creates new money, or bank deposits. When the banks buy a million dollars of Government bonds as they are offered—and you have to consider the banking system as a whole—as a unit—the banks credit the deposit account of the Treasury with a billion dollars. They debit their Government bond account a billion dollars, or they actually create, by a bookkeeping entry, a billion dollars."

In other words, when government bonds are "sold" to a bank what really happens is that the government gives the private

bank an interest-bearing obligation of all the people of the Nation. The bank, it is true, credits the Government with a brand new demand deposit, which it writes up on its books for the sole purpose of buying the bond. But this bankers' promise to pay (which is what a demand deposit is today) has nothing in the world behind it except the bonds themselves. And the bonds in turn, as everyone knows, derive their value entirely from the fact that the credit of the Government and the industry of the people are security and its repayment is guaranteed by the taxing power of the Government. The sovereign government has, in such a case, "borrowed" from a private profit-making agency nothing in the world except the credit of the nation itself which the government had in the first place.

This would correspond to what would happen if a man could go to a landowner and say: "Mister, I want to buy this farm. I have no money but if you just give me title to your farm, then I will have something on which to establish a line of credit. And I will let you draw checks against that line of credit up to the sale price of the farm. Of course since it will be my farm after you give it to me, I would have to charge you interest on this credit I let you use, but I'm sure you can see how logical my proposition is." Just substitute the government for the landowner, the banks for the man who makes the proposition, and government bonds for the farm, and you have the situation with regard to our government bonds.

Yet this and future generations must pay the banks interest on the bonds they have "bought" by this strange procedure. The total amount of those bonds, as has been explained, was $22,000,000,000 on September 30, 1941 and the amount has been increasing ever since.

Now why on earth would our Government do such a thing? The only explanation is that this phoney type of "borrowing" is resorted to for the purpose of getting additional money created. There are times when it is very necessary that additional money be created and put into circulation. And if the Government does not do it, as it should, then it pays the banks for doing it, as it shouldn't.

For example, when there is unemployment and a failure of production and a condition where machinery is idle which could and would be brought into use if there were a greater demand on the part of the consumers, then the thing that is needed is more money in the hands of the people—or "in circulation." Or if there is taking place an increase in production of goods and services, then there must be additional money put into circulation or else the demand will not keep up with supply, prices will collapse, goods will go unsold, workers will be laid off, and there will be a depression. An expanding economy can't go on expanding but will collapse instead unless new money is put into circulation to match the increasing output of goods. It doesn't help much if the additional money is put into the hands of the "investing public" by some such method as having the Federal Reserve Board buy bonds from the banks. This may do no more than cause a speculative rise in security prices. What does help is more money in the hands of ordinary consumers—people who will buy food and clothes and houses with it.

In both these cases what the Government needs to do is not to get money out of somebody else's hands into its own but rather to bring about a net increase in the amount of money in existence and in active circulation. And it is very important that this be done because the whole economic health of a nation depends, in such cases, on an expansion of purchasing power or money in circulation. Nor will the additional money or credit created cause inflation. For since more goods are being produced for sale, expansion also of the amount of money with which to buy them is not only justifiable but necessary to prevent a fall in prices from causing business failures, loss of farm ownership by thousands of farmers, and widespread unemployment.

Yes, there are times—when production is increasing or when it could be increased by additional consumer demand—when one of the first duties of government is to see that the volume of money in active circulation is increased. And the tragedy of our present financial methods is that the only thing that we

as a government do under such circumstances is to present interest-bearing obligations of the American people to the banks, and let them exercise the power of money creation which rightfully belongs only to the nation itself.

There is of course another way. For if letting private banks create money on the security of the credit of the nation is wrong, by the same token it is right that when economic circumstances require and justify that additional money or credit be made available in our national economy, it should be the nation itself that creates this money or credit and derives the economic advantage from so doing.

The founders of our national government saw this and wrote into our Constitution the provision that "Congress shall coin money and regulate its value." They did not say private banks shall create money and its value shall be regulated by no one at all.

Therefore, if we would abide by our Constitution we must put a stop to the pretense of private finance that it owns the credit of the whole American people. Instead, whenever additional money or national credit is needed, an agency of the Congress should create it without incurring a dime of debt and in accordance with such definite and specific provisions of law as will prevent either too much or too little being created at any time, and thus guard against deflation and inflation alike. Chapter XII will explain more fully just how such a system should and could work.

If we had been following the Constitution we would as of September 30, 1941 have saved the American people $22,000,000,000 of their present National Debt. That was in peace-time! $22,000,000,000 is a lot of money.

8.

THE TRAGIC RECORD OF "SOUND MONEY"

> "Banks, when they buy Government bonds, rarely pay for them with cash that someone has deposited in the bank. Instead, they create a bookkeeping credit, against which the Government is entitled to draw. . . . In a country in which more than 90 percent of all business is done by the use of checks, there is no essential difference between the creation of bank deposits by fiat and the creation of printing press money. Bank deposits—not currency—constitute our chief circulating medium."—Lewis W. Douglas, formerly Director of the Budget.

ALONG ABOUT THIS POINT some people are going to start asking about the German inflation or the French inflation or the Hottentot inflation and saying that if the Government issued money that would be "inflation" or "printing press money" or "greenbacks" and that terrible consequences would follow. Such people should ponder the words at the head of this chapter by Mr. Douglas. It will be recalled that he was the New Deal's first budget director and quit because the program was "too radical" for him. At present he is President of the Mutual Life Insurance Co.

It simply does not make sense to say that if banks create check-book money on the basis of someone's debt, that is all right, but that if the Government creates legal tender money without debt, it is all wrong. Neither does it make sense to say that the first of these methods will not cause inflation but that the second one will.

There can be no doubt that we have "printing press money" now. Our Federal Reserve Notes are not even lawful money. They bear upon their face the promise of the United States Government to redeem them in "lawful money." In other words, Federal Reserve notes are not lawful money but private bank notes. (See Sec. 16 of the Federal Reserve Act quoted in Chapter X). Yet they are America's principal cash money. Here then is the United States Government obligated, if called upon, to redeem private bank notes. And this, in spite of the fact that the Government has shorn itself of its power to create money and given it over to the banks. The next question is, what would the United States Government use to redeem outstanding Federal Reserve notes if the holders of Federal Reserve notes demanded that it do so? There is only one kind of "lawful money" and that is money issued by a Government. So the only possible thing the government could do would be to issue enough money itself to make good its pledge with regard to Federal Reserve notes. And would the cry of "printing press money" be raised by our bank-debt money devotees if the necessary lawful money were created under these circumstances? This is something for them to think about.

Any bank that buys a Government bond can use that bond to secure an issue of Federal Reserve notes if it needs them. This is just a little more roundabout method of securing some "printing press money," and the important thing is that the bankers get the advantage of the interest on the public bonds issued. That is all. But it is enough. And no one ever gets worried about this "printing press money."

Now we would all protest very vigorously indeed if the Post Office department gave over absolutely free to some private company the right to use its plates to print stamps, and then to sell them to the general public. We would complain that the nation as a whole was being deprived, without a shadow of justice, of the revenue from the sale of the stamps and that this private company was thus really taxing the whole nation. But suppose it were provided also that if any person wanted to exchange some stamps he had bought, for money, he could go to

the Post Office department to get his money—instead of the private company that was deriving all the advantages. We would say that the American people were under a double liability here —that they were having to pay once in taxes to keep the Post Office department going for the benefit of the private stamp-selling company and then to pay again when the stamps were redeemed. We would certainly regard this as utterly unjust. We would say, if the Post Office department is going to have to redeem the stamps, then it ought to have a right to print, and issue them in the first place (just as it does now).

But the situation with regard to Federal Reserve notes is similar to and even more important than such an unreasonable arrangement with regard to our postage stamps would be. For "we the people" give over to the Federal Reserve banks the right to print, not stamps, but money. The money of course is the banks' stock in trade. They sell it—or, more exactly, loan it at interest—to the American people or their government. We pay once when this happens. But the people as a whole are obligated according to present law and practice to pay a second time for precisely the same money in case it is offered for redemption at the Treasury.

The one principle necessary to prevent inflation is, of course, to see that whoever creates the money of the country—whether it be the government or whoever it is—does not issue too much of it. It is conceivable that, without adequate controls, a government might overuse its inherent power to create the money or credit of the Nation. Therefore, it would be up to Congress to require by law that this power be used only to the extent that economic circumstances require and justify. The rule that must govern is simple. Enough money should be issued—and no more than enough—to maintain the stable buying power of the Nation's money and thus to keep constant the ratio between the volume of money in circulation and the volume of goods offered for sale and prevent the terrible economic injustices that occur when money fluctuates in value. Such a control would be far simpler and easier to apply than attempts to control an inflation of private bank credit. For so long as the

banks enjoy the privilege of creating check-book money out of thin air by multiple expansion on the basis of fractional cash reserves, there is no power now existing that can stop an inflationary spiral of such private bank credit once it gets started. This particular problem is the subject of our next chapter.

Indeed, even the German inflation about which we hear so much was probably not brought on originally by the issue of money by the Government. It was brought on primarily because the privately owned central "Reichsbank" granted vast amounts of inflationary credit to business. This is what started the whole thing and for some people it was very profitable indeed. Once the inflationary disease set in, it is true the fever was most terribly aggravated by the granting of vast credits to the government by the same Reichsbank. And then it was that the deluge of paper marks descended upon the nation. It seems clear, however, from the following description that the printing of the trillions of paper marks was a secondary complication and the extension by the private central bank of its manufactured credits to German business was the primary cause of the devastating inflation. For as Gustav Stolper in his book, *German Economy, 1870-1940,* puts it, here is what took place.*

> "The inflation was caused not only by the credits the Reichsbank granted to the Government, but also by its inflationary credits to business. In itself this would hardly have been exceptional. Inflationary credits from a central bank or from commercial banks to business constitute a 'normal source' of inflation. But what made them a special economic and social feature in the German inflation period was the fact that owing to the rate of money depreciation credits granted in paper marks became a secure and abundant source of profits, and finally led to the forming of new gigantic fortunes.
>
> "The technique was simple. Industrialists took advantage of short-term bank credits not only to keep their shops going, but also for investments in other 'physical values,'

* Gustav Stolper—*German Economy,* N. Y. Reynal and Hitchcock.

which means that they immobilized these credits by extending their own plants or acquiring new plants. When the time came to repay the credits they were so much depreciated that the buyers got for practically nothing the new plants or the material with which these plants were built and equipped. For German business this was a time of hectic activity, to the limit of available material or labor.

"Of course the demand for these magic credits increased by leaps and bounds, and private interest rates rose to astronomical heights. In other words, a progressively higher devaluation factor was calculated into the interest rate. Still, as a rule, this devaluation premium lagged far behind the actual devaluation, mainly because the Reichsbank as the ultimate source of credit held the interest rates under continuous pressure by giving a large volume of business credits on short-term bills at incredibly low interest rates.

"The Reichsbank started this policy of pumping inflationary credits into business, apart from the inflationary credits to the Government, in 1922. At the end of 1921 the sum in commercial bills and acceptances in the Reichsbank portfolio was only 1,100, 000, 000 marks. By the end of 1922 it had risen to 422,000,000,000, compared with a holding of Reich Treasury bills of 1,185,000,000,000. This means that the Reichsbank increased the inflationary effects of the credits to the Reich Government by no less than one-third through credits to private business. Approximately the same ratio between Reichsbank credits to the Reich and those to private business was kept up in 1923, the year of the highest inflation fever and of the Ruhr struggle.

"But the most objectionable feature of these inflationary business credits was the interest rate at which they were granted. Up to July, 1922, the Reichsbank stuck to a discount rate of 5 percent, then it began to advance it slowly. In August, 1923, the discount rate was still only 30 percent; in September, 1923, it was raised to 90 percent, at which point it was held until the end of inflation. This means that the Reichsbank calculated a devaluation premium of

from 25 percent to 85 percent per annum, while the actual devaluation rate was more than 3,000 percent in 1922 and several million and billion percent in 1923.

"Accordingly, whoever possessed the ability and the necessary banking connections to procure a maximum of commercial credits and to invest them rapidly in 'physical values' could amass a huge fortune in no time."

People who object to enforcement of the Constitution with regard to Congress controlling the issue of the Nation's money are really saying this: That money, in order to be sound money, must bring interest to some bank which has created it and therefore, that the money we now use is sound money; but that government-created money, being free from this interest charge, would be unsound or fiat money. They have never taken the trouble to find out the real truth about the German inflation or to see that it had its roots in the weaknesses of the very kind of bank-created money which they seem to think is so "sound."

Well, let's analyze this "sound money" that we now use and that appears and disappears so mysteriously. Most of it does not even exist except on the books of private banks. To take some pre-war figures as an illustration, we had on December 31, 1940, $34,940,000,000 of demand deposits adjusted in the member banks of the Federal Reserve System and about $8,732,000,000 of cash money in circulation, only $1,412,000,000 of which was actually held by the banks. All the rest of the $34,940,000,000 of check-book money had been created by the banks by writing figures in their books and lending those figures to individuals or to the United States Government. This bank deposit or check-book money is the thing we depend on principally today for our medium of exchange. It is a very expensive thing to depend on and would be a most uncertain one were it not for government guarantee of deposits and the universal knowledge that the government simply cannot and will not permit the banks to fail but will, in case of necessity, take action such as President Roosevelt took in March 1933.

But what about our cash money? Most of it consists of Federal Reserve notes.

As explained, Federal Reserve notes are "redeemable in lawful money," but there is no lawful money with which to redeem them. They are required by law to be backed 40 percent by gold, but the gold has been declared by law to be the property of the United States, so it is not available. So the notes are backed by "gold certificates." Furthermore, under our present system we could have the most colossal inflation that the Nation has ever dreamed of. For since the Federal Reserve banks have gold certificates in the amount of over $20,000,000,000 and a 40-percent "gold" banking is required for issues of Federal Reserve notes, therefore under present law some two and a half times $20,000,000,000, or $50,000,000,000, of Federal Reserve notes could be issued. If this were done, then, on the basis of average requirements of one dollar of reserves in the banks for each $5 of demand deposits, there would be room for five times $50,000,000,000 of bank credit, or $250,000,000,000 of checkbook money!

Yet we are told we must cling to "sound money"!

Now let us consider what the record of banker-created debt-based money, as well as money redeemable in gold, has been. Let us see how much such money has done to promote human happiness; how much it has done to bring men and women to misery and defeat.

Our country has had periodic depressions and panics all through its history—every single one of which has had as one of its major causes some disorder in the nation's monetary supply. Some of these depressions have been almost wholly due to monetary causes. Not one of them but could have been quickly overcome had the people been assured of a dollar of sustained and stable purchasing and debt-paying power. Outstanding features of every depression have been a scarcity of money, a failure of demand for goods, a sharp rise in the power of the dollar to command goods and real wealth, and a corresponding decline in the money value of every farm, every factory, every hour of labor in the whole nation. In most cases depressions have followed periods of wild and speculative expansion of bankers' credit.

Panics and depressions have meant misery and hopelessness for millions of people. They have meant the foreclosure of millions of farms. They have meant hunger for little children, babies born without decent medical care, breadwinners denied a chance to work and support their families. They have meant suicide and paupers' graves for hundreds, if not thousands, of formerly prosperous people. They have meant in latter days the paradox of destitution amidst abundance.

The panic of 1837 was the result of the attempt of Nicholas Biddle of the Hamiltonian "Bank of the United States" to control the credit of the nation and strangle the country banks. It was likewise the result of the excesses of those country banks after President Jackson had freed them from Biddle's control. The panic of 1837 was not caused in the slightest degree by governmental control and regulation of the supply and value of the dollar. There was no such regulation and no such control. Neither is there in that whole dark picture of financial failure and ruination any record of a single dollar of money issued by the government of the United States.

The story of the Civil War and its aftermath has already been briefly told. There was the deliberate destruction of the relative value of the government-created "Lincoln Greenbacks." There was the uncontrolled expansion of National Bank Act debt money right after the war. There was the panic of 1873, the panic of 1887, the dismal depression years of 1893-96. Never was the dollar stabilized for more than a few months. Never could either debtor or creditor tell what his income or his obligations would be in terms of real wealth from one month's end to the next. The only thing either of them did know was that the index of the dollar's buying power would be very different in the next year from what it was in the current one. On February 25th, 1908, a young Senator from Oklahoma rose in his place to give one of the most complete and unanswerable exposures not only of the panic of 1907 and the deliberate contraction of bankers' credit that brought it on but also of the evils of any monetary system which does not provide for effective regulation by the National legislature of the volume and

value of the nation's money. That young Senator was Robert L. Owen.

But it is probable that in all the history of our country there has never been a more coldly deliberate and calculated destruction of the nation's prosperity and its property values than was carried out by order of the Federal Reserve Board as a result of its meeting on May 20, 1920, just after the First World War.

Some indication of the point of view that prompted this action can be secured from a statement by W. P. G. Harding, Chairman of the Federal Reserve Board, at the meeting. Said banker Harding: "The fact must be recognized that, however desirable on general principles continuous expansion of trade and industry may be, such developments must accommodate themselves to the actual supply of capital and credit available." In other words, production must always be throttled and limited by artificial financial barriers, according to Mr. Harding.

At this meeting, which included the Federal Reserve Board, Class A directors of Federal Reserve Banks and the members of the Federal Reserve Advisory Council, it was decided to contract the money supply of the nation in the most immediate and drastic fashion. The rediscount rate was sharply increased, all banks were urged to raise their rate of interest on loans to 7% and to insist upon prompt repayment of outstanding loans. Renewals of loans were, in the case of most types of credit, to be refused. The effect of this action was immediate and disastrous. The heaviest blow fell on agriculture. Total cash income from all farm products fell from $14,602,000,000 in 1919 to $8,150,000,000 in 1921. Billions of dollars of farm, home, real estate and industrial values were swept away and American agriculture entered a depression from which it never emerged until—tragic as it is to say it—the destruction of the Second World War artificially created a situation where farm prices returned to somewhere near a fair level.

And last and most important because most recent this falsely named "sound" bankers check-book money has been basically responsible for depriving the American nation of approximately

$338,000,000,000, worth of real wealth in the short period (11 years) from 1929 to 1940. Not until fiscal year 1941 when an increase of over *$21,000,000,000* in the national debt finally proved sufficient (!) to actually "prime the pump" did America's remarkable productive machinery really swing into action and the nation achieve a national income of more than $90,000,000,000. Reputable economists will not question that all through this period we could have been producing $90,000,000,000 of real wealth—hence $90,000,000,000 of national income each year. But we didn't. And the figure of $338,000,000,000 represents the difference between what actually was produced and what would have been produced had we operated at a $90,000,000,000 level each year.

The following table will illustrate:

Year	Value of Goods and Services Produced—National Income in Billions	What the National Income Could and Should have Been—in Billions	Loss to the Nation in Goods and Services in Billions
1929	$83.3	90.0	6.7
1930	68.8	90.0	21.2
1931	54.4	90.0	35.6
1932	39.9	90.0	51.1
1933	42.3	90.0	47.7
1934	49.4	90.0	40.6
1935	55.7	90.0	34.3
1936	64.9	90.0	25.1
1937	71.5	90.0	18.5
1938	64.1	90.0	25.9
1939	70.8	90.0	19.2
1940	77.2	90.0	12.8
			338.7

$338,000,000,000 would have paid for World War II and left something over beside—perhaps $100,000,000,000!

And all through this period the Government of the United States was endeavoring to make up by increases in the National Debt for the inherent and inevitable failure of the existing monetary system to provide the nation with an adequate medium of exchange. New Deal that it was, after 1933 the Government never once ventured outside the sacred confines of "orthodox," debt-ridden finance. Not one shred of the blame

for this, the greatest economic loss ever sustained by any people in a corresponding period of time can be laid at the door of what some people choose to call "printing press" money. For what they appear to mean by that term is really lawful money issued by a Government either in the form of national credit or of currency. Of this there was virtually none in the decade of the thirties.

One purpose of money is supposed to be to provide a measure of value. What sort of measure is it that changes in size from month to month and year to year? Obviously not a very good one.

In appendix I the reader will find two tables which state the record of our present sort of money as a measure of value. They are taken from The Congressional Record for January 15, 1942.

In December 1915 before America entered the First World War the buying power of the dollar stood at $1.35 on a 1926 base. In May of 1920, just before the Federal Reserve Board meeting above referred to, it was 59¢—less than half of its pre-war buying power. By April 1921, less than a year later, and as a direct result of the Board's action, the dollar's command over real wealth had doubled and stood at $1.01.

In October of 1929, the dollar index was $1.05, but by February of 1933, it had gone up to $1.67. Meanwhile some $8,000,000,000 of check-book money had been destroyed by the credit contraction which took place in those years. The Federal Reserve Board, indeed the whole Federal Reserve System, stood by and watched the whole house of cards collapse until every bank in the nation faced ruin had President Roosevelt not closed their doors. By October 1940, the buying power of the dollar had fallen to $1.27 and as this is being written it is less than $1.00 and falling fast.

A "measure of value" that is sometimes less than half as big as it is at other times is a pretty poor measure upon which to try to erect a strong economic structure, is it not? If the three-foot rule changed as drastically, the size of people's lots would change so violently and so often that they would never have

any clear idea as to how much property they really owned. Which is precisely the effect of this false monetary measure so far as the American people are concerned. They simply don't know how much their farms are going to be worth tomorrow or next year, how big their debts will be, nor how much their savings will buy for them.

In times of depression and economic distress the people have believed that their farms and their crops from them, their labor and their homes, their merchandise and their factories have all lost a large part of their value. But clearly no such thing has happened. An orange or a pork chop is every bit as full of vitamins and nourishment during a depression as during a time of prosperity. A home is as good to live in at one time as at the other. A pair of shoes has just as much utility and value to the wearer. What then has happened? The value of money has gone up—usually because it has become scarcer than before—and certainly because it has been circulating less rapidly. The whole thing is like having a building move up and down around an elevator instead of the elevator moving up and down in the building. And just as silly. The only thing important about a dollar is the amount of bread and meat and housing and clothes and health that it will buy. And the one most important economic job of Government is to see that this amount *does not change*. But that job has never yet been done even tolerably well. And it never will be as long as 15,000 separate private banks create and destroy our money and as long as we tie it to gold or to any other single commodity.

This has been the legacy, the history, the record of the kind of "sound money" which some people call on us to protect. It is not the history of money created by our government to serve the needs of this great nation. It is the history of dollars tied to gold, of "dollars" created and destroyed by those whose business it has been to deal in money. If by "printing press money" people mean money which is issued by the sovereign government under its sovereign right, then that kind of money would have to be issued and controlled by idiots and imbeciles motivated by diabolical intent before its record could possibly contain the

dismal pages that have been written to the account of gold and bankers' fiat money.

On the other hand, men of reasonable judgment and decent interest in the public welfare could write a law creating, as a public body, a monetary agency of the Congress and giving it exclusive power to create money or any substitute for money in the United States. Such a law would also have to contain explicit instructions to the agency to issue money or set up national credit on the books of the Treasury at such times and in such amounts as to provide the same percentage increase in money volume as the increase that was taking place in the nation's capacity to produce goods for sale. And as our last chapter stated, if this were done there is no reason in the wide world why either inflation or deflation should visit America again.

Sound money is money which bears a constant relationship to, and value in terms of, actual goods and services. That is all there is to it. It makes no difference what the money is made of. It makes no difference whether or not a tribute is paid to a banker by a government to regain its sovereign right to issue the money. None of these three things has anything to do with the soundness of money. Sound money is money that does the job money is supposed to do. And that job is to enable the business of the nation—as much business as it can possibly do—to be carried on in an orderly and effective way.

PART FOUR

CONSTRUCTIVE FINANCIAL PROPOSALS FOR WARFARE AND WELFARE

9.

DOLLAR FOR DOLLAR

"It is the Government's policy to restore the price level first. When we have restored the price level we shall seek to establish and maintain a dollar which will not change its purchasing and debt-paying power during the succeeding generations. I said that in my message to the American delegation in London last July and I say it now once more."
—President Franklin D. Roosevelt in a nationwide radio address October 22, 1933.

WHEN PRESIDENT ROOSEVELT made that statement he was worrying about the worst deflation in the history of the United States. He wanted to raise prices. Indeed all through the Nineteen Thirties we were trying to overcome deflation. With the coming of the defense program and the War, we started worrying about inflation. And with the coming of peace, the time will come again when deflation will be an even greater danger to us than inflation is now.

Deflation is what happens when the supply of goods increases faster than money in the hands of the consumers increases. The people would like to have the goods but they have not the dollars with which to buy them. Then farmers and manufacturers can't sell, even at cost, what they have produced or what they could produce and we have bankruptcy, foreclosure, distress and unemployment. Money gets to be worth more; people try to sell goods and get money; the price of farm crops, of clothes, machinery, lumber, labor—everything else—goes down. Debts are harder to pay and people have to work longer and produce more goods in order to pay them at all.

In the long run deflation is an even worse danger to the

common people than inflation. Raymond Gram Swing, the noted radio commentator, once said:

"We fear inflation like a plague, consider deflation beneficial though unpleasant, like a visit to the dentist. Yet it is deflation which should alarm us, for inflation is growth, but deflation is decay. A wealthy country like ours can catch up with inflation and outgrow it. We can put it to work for us, on the perfectly sound principle that nothing succeeds like success. But deflation will only work against us on the equally sound principle that nothing fails like failure."

Of course, Mr. Swing was speaking of peace time and we had not yet experienced the drastic events of World War II. Nevertheless he is fundamentally correct. And the threat of deflation after the war has been won will be our greatest domestic danger in that critical time. At that time, if we love our country, we will not repeat our fatal blunder made so often in the past. We will not wait until deflation has shrouded the country and then rush around trying to pick up the pieces and feed the hungry unemployed and sympathize with the farmers who are losing their farms.

For there is one thing *not* to do in the face of deflation and that is what has always been done in the past, namely, to decrease production to a point where there won't be any more goods than there is money to buy them with. Deflation is a shortage of the people's buying power relative to the power of the nation to produce. But if, as usually happens, production is cut down, then workers lose their jobs and the people's buying power is still further reduced. The country as well as the people gets progressively poorer and nobody profits except the people who either have hoarded money or have the power to create it. For all they have to do is sit on their money or their power and watch the price of everything else go down, which means that the purchasing power of their money is going up correspondingly.

If anybody thinks the banks and the orthodox financial methods can be depended on to overcome deflation let him read the history of our country from 1929 to this very hour.

And he will find that not only did the present monetary system fail utterly in overcoming the depression (which is another word for what happens in a period of deflation) but it actually caused it in large part—caused it because the kind of money we were depending on was synthetic bankers' money which not only can be created by the banks but destroyed by them as well. The working of our monetary system caused the depression by destroying about eight billion dollars of check-book money. And as long as this bank deposit money is our sole dependence, and as long as the creation of deposits for the purpose of making loans is our sole means of getting additional money into circulation, the only way we shall have of overcoming a depression is for the banks to discover borrowers who not only want to borrow but whom the banks consider to be "good risks." And the very time neither of these conditions is likely to be fulfilled is when there is a depression!

Depressions are never caused by "over-production." They are always caused by under-consumption, caused by lack of buying power in the hands of would-be consumers.

So there is one thing and only one to do when deflation threatens and that is to increase the buying power of the people. The first thing needed is the creation of an additional supply of money in such a way as not to increase debt and in such a way that it will be available to the masses of the people for expenditure for goods which the producers are eager to turn out and sell.

To put the matter simply and concretely, the general type of thing that will be needed next time deflation threatens—which will probably be a few short months after peace returns—is to have Congress or its direct agent in a position to create the proper amount of national money (not necessarily cash—credit on the Treasury books is just as good) and use it, with revenue from a sound tax program, to expand the present Social Security system into a national insurance program which will put active buying power directly into the hands of our old people, widowed mothers and dependent children, the disabled, and others who either cannot or should not be employed.

There simply is no good reason why the people of this nation should be called upon to suffer through another period of deflation and business stagnation.

Not if Congress does its constitutional duty in some such manner as that which this book is proposing.

But we must be prepared to control intelligently and effectively the power now exercised by 15,000 separate banks to create and destroy the medium of exchange of the American people.

Inflation of course is the opposite of deflation. It is a condition where the amount of money in people's pockets and bank accounts which they are trying to spend for goods is increasing faster than the supply of goods is increasing. If people generally receive an increased money income they will want to spend it and prices will certainly go up, unless the volume of goods that are offered for sale increases in proportion to the money income of the people. So when there is inflation all prices will have a tendency to rise.

Inflation, however, is a much more general and a much more fundamental thing than high prices for a few things. For it is possible for monopoly or speculation to increase some prices even if we don't have inflation. But it is impossible to have inflation without having almost all prices go up at the same time.

Along in March 1941, as the national defense program got into full swing with the government spending money just as fast as defense equipment could be produced, prices began to go up and there arose a great concern over inflation and a demand that something be done about it.

The concern was, of course, justified.

For when hamburger that used to cost fifteen cents a pound goes up to thirty cents or a shirt that was expected to cost a dollar turns out to cost a dollar and a half, or rent that used to be twenty-five dollars is boosted to thirty-five dollars, the result is exactly the same as if a general cut in pay had taken place. A lot of American families suffer, especially those with

low or fixed incomes, many of whom have had none too much of food, clothing or shelter anyway.

But the remarkable thing about it was that almost all the discussion assumed that the only thing that could be done was to set up some kind of government bureau and give it power to curb prices by the process of issuing orders. Hardly any of the talk dealt with the fundamental causes of inflation or the fundamental remedies.

When Japan attacked Hawaii and America was plunged into full active participation in the war inflationary forces became even stronger than they had been before.

For in a war of the magnitude of the Second World War a very large percentage of the nation's production must be devoted to making armament—things that can't be sold to the people but are used for the protection of the nation. The people can't buy bombers or battleships. But all the people who are engaged in producing the war materials are meanwhile drawing pay or making profits and they want to spend at least a part of that money for consumer goods. Consequently the supply of consumer goods falls behind the demand for them. And there you have the basic cause for inflation—more active money trying to buy goods than there are goods offered for sale.

When inflation threatens there are two things to do. The first is to increase production of goods for sale so their volume will catch up with the flow of the people's active money. (This is what Raymond Gram Swing was talking about in the quotation earlier in this chapter.) This is always a good and obviously a very constructive and beneficial cure for inflation. And it will work providing you are in a position to do the second thing which is to prevent too great an increase in the available amount of money. The first thing that must be done, therefore, is to absolutely prevent the creation of money for speculative purposes. And that cannot be accomplished as long as 15,000 banks are in a position to create five, six or even ten dollars of check-book money (demand deposits) for every one dollar of cash reserves they possess.

If there is real inflation—that is, more money in circulation

than increasing production can catch up with—or if a large percentage of that production is being devoted to armament and things that aren't going to be available for sale to the people—then one of two things must be done. Either increase the amount of goods produced for sale or decrease the amount of money trying to buy goods. That is the simple rule for overcoming inflation and unless one or the other is done with the greatest courage other methods will be like sitting on a steam valve with the boiler fires at white heat and the stoker shoveling in more coal.

Even in the midst of total war, every effort should be made to increase the supply of necessary goods and services—food, clothing, simple housing, health services, and things like that. But one very important qualification must be made, namely, that winning the war comes first and war production has first priority. Every attempt must be made to achieve maximum production in every field. The greatest efficiency and the greatest effort must be employed in keeping up the supply of the things the people need, for to bolster and protect the basic standard of living of the people will help, not hurt, the war effort. And it is a fundamental attack upon inflation. But there is a physical limit to the amount of material and labor that can be devoted to consumer goods production, granting of course that we devote, as we must, all the effort and material that are needed to win the war. So if we are to prevent serious inflation under conditions of total war, it is absolutely essential that the creation of new money be strictly limited and controlled. For it simply cannot be matched with a corresponding increase in the supply of consumer goods.

Now, the perfect money system for this or any other nation contains two parts. (1) By order of the nation's Congress—and it alone—enough new money should be created from time to time to keep the volume of the people's total buying power increasing just as fast as their production of goods and services increases. And (2) by action of the same Congress taxation should be used to take out of circulation any amount of money

necessary to keep the supply of money from getting ahead of the supply of goods produced for sale.

But how on earth is the Congress to know what tax rates to use to check inflation when the banking system has complete control of the creation of money and can do just about as it pleases in this field? And as long as the fractional reserve system lasts the banks will have that control.

For the "fractional reserve system" means that banks hold in reserve to meet their depositors' demands only a fraction of the amount of money the depositors have to their credit on the banks' books. This is the thing that enables our banks to create and destroy check-book money, our principal medium of exchange. For if the Federal Reserve Board requirements call for a 20% reserve and if depositors have placed $1,000,000 in cash in a certain bank, the bank need hold for them, not $1,000,000, but only $200,000. The other $800,000 would be "excess reserves" and as such could be used by the bank to cover, under a 20% reserve requirement, five times $800,000 or $4,000,000 of loans of new check-book money to anyone it saw fit. Or it could create $3,000,000 of such money, or $2,000,000, or $1,000,000, or only $5, and once it had created this type of synthetic money, it could, in a comparatively short time, destroy it again by calling in its loans and not renewing them. Thus the banking system controls the volume of money in circulation and can create inflation or bring on deflation at any time.

In a letter addressed to some 20,000 American corporations on April 25, 1942, the Secretary of the Treasury wrote the following paragraph:

> "If the government is compelled to go to the commercial banks for the bulk of these funds, the result will be to increase inflationary tendencies which are already serious. This is true because when commercial banks buy government bonds they do not pay for them with actual cash taken from their vaults, but by placing on their books

newly created deposits to the credit of the government. When the Government draws upon these deposits to pay for the goods and services it buys, the purchasing power of those to whom these payments are made is increased *without any decrease in the purchasing power of those from whom the money is borrowed.*"

The exercise of this privilege of private banks to create money in the form of bank deposits can produce an inflation as the Secretary points out, and in fiscal year 1942, alone, the banks of the United States created well over $8,000,000,000 of new money in this way—approximately the same amount that they destroyed between 1929 and 1933. Until that privilege is brought under control—indeed, until the power to create money is exercised exclusively by the Congress of the United States as the Constitution provides, we shall not be able to have the kind of stable and dependable monetary system described above nor shall we be able to effectively prevent inflation.

Farmers and business men will remember their experience after the First World War and will readily understand that the power of the private banks to create bank deposit money by making loans carries with it a corresponding power to destroy that money by refusing to make loans or to renew them. And, therefore, whenever it is to the interest of the financial powers of the country to reduce our money supply they can do so and produce a disastrous deflation with consequent unemployment, bankruptcy and foreclosure. And unless we are very vigilant—unless we take steps now to prevent it—this is just what will happen a short time after this war is over, as it did in May, 1920.

But more immediately threatening is the effect of the exercise of the usurped power by the banks upon wartime price inflation. For in this power of private banks to create the money of America resides an unnecessary inflation danger—one that the Federal Reserve Board itself has warned against more than once. The Board has asked Congress to give it additional power to increase reserve requirements in the member banks.

But the real remedy would be to proceed gradually to increase the reserve requirements until we have in the banks a dollar of honest cash money behind every dollar of the people's demand deposits. By establishing such a system no private bank could any longer create new check-book money out of thin air and we would for the first time be able to control the increase and decrease of our money supply.

A few figures here will illustrate. In March of 1941, the banks in the Federal Reserve System had $6,300,000,000 of excess reserves. ("Excess reserves" are the amount of cash or its equivalent in Reserve Bank credit which the banks have at a given time over and above the percentage of their total deposits which the Federal Reserve Board requires them to hold. If, for example, the total of demand deposits of all the member banks of the Federal Reserve system was $30,000,000,000 in March, 1941, their "required reserves" would have been $6,000,000,000, since 20% or one-fifth was the average amount required. If, however, they actually had $12,300,000,000 of cash reserves, $6,300,000,000 of this would have been "excess reserves.")

By August, excess reserves had been reduced to $5,000,000,000, and by May 1942, to only $2,690,000,000. Excess reserves had been reduced, therefore, by approximately $3,600,000,000 in a little over a year. Of this reduction about $1,000,000,000 was due to the increase in *reserve requirements* by the Federal Reserve Board in the fall of 1941. Another factor of uncertain importance was the increase of "money in circulation." That is, for one reason and another, people had been drawing on their demand deposits and getting cash instead. For reasons which will be explained a little later on, this sometimes causes a reduction of excess reserves. (But we cannot tell just how much this factor reduced excess reserves without giving a whole lot of very complicated figures because sometimes when a considerable amount of cash is demanded of the banks they borrow from the Federal Reserve Banks in order not to disturb the amount of their reserves. When this happens there appears on the Federal Reserve books an item called "Reserve Bank Credit" in the same amount as the increase in money circula-

tion. What has happened has been that the member banks have had need of Federal Reserve notes, have brought in Government bonds or other assets to the Federal Reserve and the Federal Reserve Banks have created an equivalent credit on their books with which to purchase or lend against the member banks' collateral. This means in simple words that the central Federal Reserve banks have created that much money instead of the member banks doing so by using part of their excess reserves.)

Taking all factors into account, however, there took place in this fourteen month period a reduction of excess reserves of at least $2,000,000,000 which can have been due to but one cause, namely, the creation of new demand deposits for the purpose of lending them into circulation. In order to reduce excess reserves by $2,000,000,000, five times that amount of deposits would have had to be created, since the average reserve requirement during this period was 20%. Hence, between March 1941 and May 1942 the commercial banks created and loaned into circulation approximately $10,000,000,000 of brand-new bank deposit money—a large part of which was created and loaned to the United States government through the purchase of interest-bearing bonds. And this was in addition to a considerable amount of new money which was created by the central Federal Reserve banks.

And so it is not surprising that in setting forth a comprehensive proposal for the sensible financing of the war former Senator Robert L. Owen, co-author of the Federal Reserve Act, wrote as follows in a letter to Dr. Sheetz, Secretary of the American Livestock Association:

> "To authorize the Reserve Board to raise the reserves of the member banks against deposits except savings accounts to 100 percent would absorb a large part of the bank credit unavoidably created through the expense of this war. But such expansion of credit should not be used by the member banks as a means of further expanding credit on a rising market in an inflationary manner. The plan pro-

posed would abate the evil of indefensible expansion and indefensible contraction by privately owned banks of the money supply. Congress should direct the Reserve Board to use the power given to stabilize money."

And Senator Owen proceeds in a short paragraph to answer some of the arguments most frequently advanced against the 100% money system, such as:—How would the banks make any money? And what funds would the banks use to make loans with? He writes:

"The member banks at present have capital, surplus and undivided profits which they hold as reserves against loans, but they would not need such money as reserves under the system above proposed and could lend their own money freely, without danger. The banks by charging for keeping the accounts and verifying checks and acting as advisers and intermediaries with their depositors in making private loans of the depositors' money can earn as much as they do now without any indefensible expansion or contraction of money."

Now it certainly is "indefensible" for the government to impose price controls, rationing, priorities, unheard of taxes, probably compulsory savings and other measures of almost dictatorial regulation on the people in an attempt to prevent price inflation and at the same time to let private banks go on creating new money by the use of their fountain pens, claiming in this manner ownership of the credit of the nation and nullifying to a considerable extent all the other efforts that are being made to prevent inflation.

A lot of this bank-deposit-money inflation has come about through purchases of government bonds whereby the government gives a private bank an interest-bearing obligation of all the people of the Nation and the bank in exchange creates a deposit and credits the Government on its books.

Private creation of money is wrong anytime. At a time of

threatening inflation it is, as we have said, utterly indefensible.

If we had a system of 100% reserves, no bank could do this. Under those circumstances if a bank wanted to buy a Government bond or make a loan or buy property or securities, it would actually have to give up some of its money in order to do any of these things just as anyone else has to do now, which seems a fair proposition after all. In Chapter VII we set forth a simple principle that "no Government any place, any time, ever should borrow credit created by a private agency." We said in that chapter that if Government is to borrow at all it should only be under circumstances where a given amount of already existing money or credit is transferred from private hands to those of government in exchange for a Government bond. If this rule were observed, then Government borrowing could be used to control inflation. But when Government borrowing means paying banks to create money the effect is more inflationary than creation of money or credit by the Government itself would be and is fundamentally unjust to boot.

The only way in which this can be stopped once and for all is by the 100% reserve system for demand deposits. Professor Irving Fisher of Yale, perhaps America's foremost monetary expert, is and has been for many years the outstanding American advocate of this system. Professor Frederick Soddy, Nobel-Prize-winning Oxford seer, is probably the originator of the idea.

The $ for $, or 100% reserve system, is very simple, almost as simple as the present fractional reserve system is complex and confusing.

At present when a man has deposited money in a bank he quite understandably believes the money is actually there and that he can go and get it when he needs it. But under our present system "money deposited in the bank" is actually no such thing. From the time a depositor hands his money through the teller's window what he "has" in the bank is the bank's promise to pay him the amount of the deposit when, as and if it can. Government guarantee of deposits makes it more likely than it has ever been before that the man can get his money. In fact, it makes it absolutely certain he can get it so long as

only a few banks go broke at a time. If all of them did so at once, the only way under heaven whereby the Federal Deposit Insurance Corporation could make good its guarantee would be for the Government to actually turn the guaranteed deposits into money, that is, to create as much money as the depositors were supposed to have in the bank.

The \$ for \$ reserve system would simply take this same step now and make all the money deposited in the banks which people now naturally *think* is there, actually be there. It would monetize the deposits; first turn them into cash or its equivalent and then and from that time on require the banks to hold demand deposits in trust for their depositors.

(By the "equivalent of cash" we mean, usually, a credit on the books of the Federal Reserve banks which can be turned into cash on demand.)

In short, the first purpose of the 100% reserve system is to make it forever impossible for any bank to go broke again.

The second purpose is to put an end to the indefensible practice of the private banking system of claiming ownership of the public credit and creating money in the form of demand deposits for the purpose of lending it into circulation at interest. The function of creating money in any self-respecting nation must be reserved to the sovereign government thereof and until this is done a scientific dependable monetary system cannot be established. And without the 100% reserve system there is no way to prevent the private banks from usurping this power. The fractional reserve system which we use now means, by definition, that the banks can create anywhere from five to ten times as many dollars of deposits as they have cash to back them with. Whether it is five times or ten times or some other ratio depends upon the reserve requirements fixed within limits by the Federal Reserve Board.

Now how difficult would it be to establish this 100% reserve system? Where would all the money come from? These are natural questions but not so very hard to answer. Of course, to require the establishment of a 100% money system by the banks of the country would make it incumbent on the Govern-

ment to see that the banks were enabled to provide themselves with requisite reserves for demand deposits without deflationary or harmful consequences. That this is altogether possible from the standpoint of our banking system as a whole will be clear from the following figures. The total of demand deposits adjusted in all banks, in December 1941, according to Federal Reserve Board figures, was $38,000,000,000. ("Demand deposits adjusted" means all demand deposits in all the banks minus the amount of deposits which one bank has in another bank minus the amount of checks that have been drawn against banks but not yet collected upon.) Against these deposits, however, the banks had the following cash reserves and Government bonds:

Cash reserves with Federal Reserves	$12,450,000,000
Cash in vault	1,500,000,000
U. S. Government obligations	25,488,000,000
Total	$39,438,000,000

Thus it will be plain that, taking the banking system as a whole and leaving out of account cash balances held by one bank with another bank, as well as items in process of collection, the available coverage for demand deposits exceeded the sum total of the demand deposits by approximately one and one-half billion dollars on December 31, 1941. This, of course, does not mean that all the individual banks in the country had sufficient cash plus Government bonds to cover their demand deposits. Furthermore, a total of about $1,300,000,000 would have been required by all the banks together as reserves at the rate of 5% for approximately $26,000,000,000 of savings and time deposits. There are various ways, however, of supplying this relatively small amount of additional reserve cash. For example, loans at no interest of sufficient cash to make possible 100 per cent coverage of demand deposits could be made to individual banks by the Federal Reserve, and in spite of the fact that this would be in effect giving the banks that amount of cash, nevertheless it would not be too heavy a price to pay to get our monetary system onto a sound and workable basis. This is the method apparently preferred by Professor Irving Fisher,

the outstanding advocate of the 100% reserve system in the United States.

We have, of course, assumed that banks will be permitted to count direct and fully guaranteed obligations of the United States as a portion of their reserves. This procedure would logically require that when such bonds reached maturity, they would be replaced by cash in the banks' reserve accounts. It follows naturally, then, that bonds counted as reserves would be retired by the simple process of paying them off with new money created by the government for that purpose. Thus about one-third of our whole National Debt, which is the portion now held by banks, would be easily extinguished without taxation as an accompanying advantage to the establishment of a 100% reserve system. The importance of this is quite impossible to over-emphasize.

The question will inevitably be asked where the banks will secure money for the purpose of making loans with a 100% reserve system in effect. The answer to this is several-fold. In the first place, they would have their own money, that is, their capital and surplus, and would not need to hold these funds to protect themselves against the possibility of a "run" because with the 100% system in effect no bank could possibly suffer from a "run." In the second place, they would have money deposited with them under circumstances where the depositor was deliberately and intentionally placing his money with the bank for investment purposes. This is what really happens in the case of savings and time deposits.

When a man deposits money in a savings account he does not expect to use it to pay current bills. He expects to leave it there and in return for a small rate of interest he gives consent to the bank's using it for loans and investment purposes. But as to demand deposits, the depositor, at present erroneously, thinks his money will be kept for him by the bank and that he can draw all or any part of it any time he wants to. That is an illusion.

In the third place, the 100 per cent reserve system need not necessarily mean the end of the rediscount privilege which mem-

ber banks now exercise in connection with the Federal Reserve Banks. Such a procedure is a compromise with sound monetary principles, but would probably not be harmful as a means of transition until a system of interbank loans is perfected to take care of any need for credit in particular banks. In other words, it would be quite as possible then as now for expansion to take place on the basis of legitimate commercial demand. The ideal monetary system would be one in which no money whatsoever was ever created for the purpose of making a loan but where all loans were made with pre-existing money. The point is, however, that the dollar for dollar reserve system would not result in any dearth of loanable funds in the banks and that several methods are readily available to prevent any such possibility.

In 1939—on February 21st to be exact—Professor Irving Fisher directed a letter to the *New York Times,* which the *Times* published and which pleads for a money for this Nation which will be divorced from debt. Let us read that letter here, for it is an excellent statement of the underlying principles of the 100% money system.

"To the Editor of *The New York Times:*

"In your editorial, *The Wrong Way Out,* you agree with ex-President Hoover that the New Deal's spending policy is a great 'gamble'; it will win only if it brings recovery fast enough.

"I also agree, both that it is the wrong way out and that it is a great, dangerous and costly gamble.

"But your proposal merely to stop the spending policy and balance the budget is also a great gamble and, in my opinion, also the wrong way out. You are trusting to luck that confidence will thereby be so rapidly restored as to lead businessmen to borrow bank credit fast enough to prevent deflation and another recession. This policy did not succeed when tried a year ago.

"Either policy is a gamble as long as bank credit, in the sense of checking deposits, is tied to bank loans and investments.

"For a century that bad system has stealthily grown until now our chief circulating medium, deposits subject to check, is largely dependent on somebody being in debt. The greater the volume of bank loans or investments like government bonds, the greater the volume of our nation's circulating medium; and the smaller the volume of loans or bonds, the smaller the volume of our nation's circulating medium.

"We have a dilemma. If we balance the budget, we lessen the bonds on which our deposit currency now depends; if we don't balance the budget, we keep business frightened and scare off bank loans.

"To get a sound currency it is absolutely necessary to cut this tie between our chief currency and loans and investments.

"This present situation as to our bank deposit currency is similar to the situation before the Federal Reserve Act as to our banknote currency. That note currency was a bond secured currency just as now is our deposit currency. As the government debt was reduced, our banknote circulation had to be reduced too. We finally cut the tie between the note currency and government debt by the Federal Reserve Act.

"What we now need is a somewhat similar severance of the present tie between deposit currency and debt—both government and private. There should be no connection between the volume of our circulating medium and the volume of debt.

"Moreover, your solution will probably never work because the short-term bank loans will probably never again be revived sufficiently to afford the basis for our large volume of deposit currency. That sort of financing has largely been superseded by other devices.

"Why should we have to gamble at all? Why entrust to luck the volume of the nation's currency? This should be determined to fit the nation's business, not the Nation's debt."

In this letter Professor Fisher gives the central reason for the 100% money system. That reason is not to be vindictive toward the banks or to deprive them of revenue. They can obtain income far better and more certainly if we honestly pay them service charges for the clerical services they perform. The purpose of the 100% money system is to separate the supply of our medium of exchange from bank loans and debt and to tie it instead to the need of the nation for a certain volume of money. It is simply ridiculous to contend any longer that bank loans will expand in proper ratio to the increase of production and exchange of goods. And it is a central fact of history that sooner or later the volume of such bank loans will always be artificially contracted with resulting bankruptcy, foreclosure, unemployment and distress.

No, the reason more and more of the best economists of the nation are advocating 100% reserves is purely and simply so that the total volume of bank credit money will be a controllable factor in the money situation and so that it will be possible for an agency of the Congress to do the job of creating money on a scientific basis, leaving to the banks the job of lending the money once it has been created by the Government.

The same purpose might, it is true, be served if on a certain date all the individual banks were required from that time on to keep forever after the same ratio of reserves to deposits as they had then. But obviously this would involve baffling complexities and a good deal of injustice as between banks. And if we are to actually relieve the problem by this method, we would have to include a requirement that no bank should ever have *either more or less* deposits relative to its reserves than it had on the date the new system was put into effect. For as soon as a bank's deposits—that is its loans, for nearly all deposits arise from loans somewhere in the banking system—fell below the original ratio to reserves the bank in question would be in the position of reducing the total volume of money in circulation. And it could furthermore at any future time it wished increase the volume of money in circulation by creating new deposits against

its excess reserves. This is the sort of thing that ought to be—indeed, must be—ended.

One more thing ought to be explained. Whenever anyone draws cash out of a bank the reserves of the bank will be reduced. The bank can have $5 of demand deposits on its books for every $1 of reserves assuming reserve requirements to be 20%. Let us suppose a particular bank has $5,000 of demand deposits and $1,500 of reserves. It would then have $500 of excess reserves—since 20% of $5,000 is $1,000. Now if a depositor came along and drew a check for $500 and demanded cash for it, the deposits of the bank would be reduced by $500, leaving $4,500 of total demand deposits on the bank's books. But its reserves would be reduced by the same amount, namely, $500, leaving $1,000 of reserves. 20% of $4,500 is $900; therefore the bank would now have only $100 of excess reserves, and this transaction would have had the effect of reducing excess reserves by $400.

The central point is of course that whereas most people think that banks have as much money to pay their depositors as the depositors have to their credit, that is not the fact. The banks have only about one-fifth that much money—or at least that is all they are required to have. Therefore, when they lose cash and deposits at the same rate, as in the case of the check described above, they are in reality losing reserves five times as fast as they are losing deposits.

Now suppose in the case of the bank we were talking about, another depositor comes in and also pushes through the teller's window a check for $500. By this act he reduces the bank's demand deposit liabilities to $4000. But if the bank pays him the cash, its reserves will have been reduced to $500, which is $300 less than the required 20% (20% of $4000 would be $800). It must then take some "sound bankable asset—a Government bond for instance—and put it up as collateral for a loan of $300 from the Federal Reserve Bank in order to bring its reserves up to the required amount. If it cannot do this, then it is in trouble. And it will of course be clear that if a third check for

$600 were immediately presented the bank would have no reserves at all and would even be unable to cash the check in full unless it could borrow at least $100 very quickly indeed.

Under the 100% reserve system none of these things could happen; all demand deposits would actually be held in trust by banks for their depositors. The withdrawal of cash could never make trouble for the banking system again. For demand deposits would be precisely and exactly the equivalent of cash. These deposits would, to use a monetary term, have been "monetized" the moment the 100% reserve system was put into effect. There never could be another 1929 collapse, never another "run" on any bank, never another situation where depositors could not get their money from the bank where they had placed it.

But merely to deprive the banking system of its power to inflate our money will not be enough to do. For if we are to hope for increasing production and increasing business in the future there must be some means whereby we can secure the additional supply of our medium of exchange which will be needed to accompany that increased production if deflation is to be avoided. It would be a fatal mistake to put ourselves in a position where expansion of our monetary and credit resources could not take place. That may be the reason for the writing into our Constitution of the provision that Congress "shall coin money and regulate the value thereof."

Perhaps the central evil of the system in use at present is that it compels the United States Government to increase the National Debt whenever it becomes necessary for new money to be created.

A member of the United States Senate recently wrote a letter of inquiry to the Treasury and asked what objection there would be to having the Government use its power to create the medium of exchange of the United States interest-free instead of being compelled to increase the National Debt every time additional money was required by the nation as a whole. Here is a portion of the reply from the Under-Secretary of the Treasury:

"One important objection to issuing money in order to pay for expenditures in excess of receipts is that bank reserves would have further increased. Currency in excess of what the public chooses to hold for cash transactions is usually deposited in banks, but deposit of such currency increases reserves which are available for the multiple expansion of bank credits."

This reply illustrates the vicious circle that must be broken. Of course, what the Under-Secretary says is true; but in effect he is saying that we must not let the Government or the people of America create money for the reason that we have already, in violation of the Constitution, given the banks that privilege. It is like saying that because we have sold the Nation's birthright it must stay sold. Everybody realizes that if national money is put into circulation or national credit extended, then that money would soon find its way to the banks and be eligible as reserves and the banks would have their power to create check-book money increased. But this only reinforces our argument, for it brings into bold relief the fact that we ought to have a banking system which would lend real money instead of fiat credit and under which private institutions did not create money on their own account.

We conclude this chapter with a quotation from Professor Soddy of Oxford University, England, a man recognized throughout the world as one of the greatest economists of our time.

"I have already indicated my view that more than half the battle would be won if fictitious credit could be absolutely abolished, and fifteen years ago I proposed to do this by making the banks keep pound for pound of national money against their liabilities to their current cheque-account depositors. It is still not universally appreciated that these so-called deposits are really money owed on demand by the banks to their depositors and not either possessed or even in existence as tangible or physical money.

The goods obtained by the issue have been obtained without even a paper receipt for them, which is what paper money really is.

"Bank-credit merely offsets one debt by another, the money loaned the borrower by the bank is owed by the bank to the public. The cheque-account deposits represent the aggregate indebtedness of the banks to the public, and I propose to issue this money to them, some two to three billion pounds, and require them to hold it against their liabilities to their clients, pound for pound.

"The money would be issued against the collateral security surrendered by the banks' debtors, until the loans matured and the collateral was returned to the owners. When and as the loans were repaid, the money could be put back into circulation by purchase and destruction of interest-bearing national debt, and in this way some two thousand million pounds of the non-interest bearing national debt, which money is, would be substituted for the equivalent of interest-bearing debt, and the taxpayer relieved of gratuitous imposition of over a hundred million a year."

If, as this chapter has advocated, we were to turn into real money, or actual cash reserves, the bankers' promises to pay which now constitute the only backing for most of our deposits, it would become necessary that government bonds now held by the banks be replaced as rapidly as possible, and in any case as rapidly as they matured, by new money created by the government for that purpose. And as has been pointed out, the net effect of this altogether constructive reform in banking practice would be to retire all that portion of the national debt without the necessity of raising a cent of the money by taxation. This would, over a period of time, lift about one-third of the entire national debt burden from the shoulders of the people.

10.

THE FEDERAL RESERVE BANKS AND THE CREDIT OF THE UNITED STATES

THE AMOUNT OF CREDIT a man can get at a store or at a bank depends upon either the value of property which he owns and can pledge as security or else upon his ability to produce wealth and thus earn money with which to repay the loan or extension of credit made to him.

The credit of the United States Government is the credit of the American people as a whole. It rests squarely upon two things: (1) the ability of the American people to produce and (2) the power of the Government to tax. The sovereign right of the nation to coin or issue money is an unlimited right but prudence and sound judgment and a concern for the future will always dictate that this right be not exercised beyond the amount of credit which the nation possesses according to the definition just given.

The American people each day that they work and produce broaden the base of their own national credit. The amount of money that should be in circulation at any given time is limited by but one main factor—the amount of goods available to be purchased with the money. Therefore, the central and basic truth about money is that by their industry and labor and the abundance of their production the American people, or any other people, determine the extent to which they have a right to have their government create money and feed it into the channels of their trade.

No rational mind has yet been able to conceive why, therefore,

a sovereign people should be required to pay interest to private financial houses when their national money is created.

By "money" we mean, of course, not cash or currency alone but demand bank credit of every sort as well, since it performs all the functions of cash money.

The credit of the United States belongs by every right and legitimate title to all the people of the United States. It belongs to the farmers, the managers, the business men, the laborers, the inventors, the scientists, the doctors, the teachers, the home-makers of America. The reason the nation's credit belongs to all the people is because they produce the real wealth that makes it possible for the nation to have any credit at all and because they pay the taxes that enable the government to make good on its obligations.

But we don't act as if the credit of the United States belonged to the people of the United States.

In 1913 the Federal Reserve Act was passed. That Act as amended by later Congresses has given to the twelve Central Federal Reserve banks the opportunity to claim that they own the credit of the United States. Through these twelve central banks all the thousands of member banks of the Federal Reserve system share in this claim.

But the Central Federal Reserve Banks are private institutions. They belong to the member banks, which are private institutions. The United States Government does not own one penny's worth of stock in these central banks of issue. The Board which governs the system is paid by the private banks and therefore is responsible to the private banks first and to the people and government of the United States second.

A surprising number of people don't believe that the twelve Central Federal Reserve Banks are privately owned institutions.

Millions of people believe "Federal" Reserve Banks means what it says and that there is something "federal" about them. Some documentary evidence at this point would seem to be necessary.

First, a letter from the Director of Research and Statistics of the Board of Governors of the Federal Reserve System itself.

BOARD OF GOVERNORS
of the
FEDERAL RESERVE SYSTEM
Washington

February 14, 1940

Honorable Jerry Voorhis
House of Representatives
Washington, D. C.

Dear Mr. Voorhis:

In reply to your letter of February 10, the stock in the Federal Reserve banks is owned by the member banks and such State banks as were eligible and wished to join. The law requires the member banks to subscribe to the capital of the Federal Reserve bank of their respective districts 6 per cent of their own capital and surplus. Of this amount, 3 per cent has been paid in and the remainder is subject to call. There are no other stockholders in the Federal Reserve banks. If you wish it, I shall be glad to furnish you with a list of the approximately 6,300 banks that belong to the Federal Reserve System and their holdings of Federal Reserve Stock.

In this connection, I take the liberty of sending you a statement on "The Nature of Federal Reserve Banks" in which there is a discussion of the ways in which stock ownership in the Federal Reserve banks differs from ordinary corporate stock ownership.

Very truly yours,
(Signed) E. A. Goldenweiser
Director of Research and Statistics

Second, a letter from the Assistant Secretary of the Board to a gentleman who had contended that the Government did own the Federal Reserve Banks.

BOARD OF GOVERNORS

of the

FEDERAL RESERVE SYSTEM

Washington

Dec. 20, 1940

Mr. Andrew N. Hildebrand,
124 Lincolnway East,
South Bend, Indiana

Dear Sir:

Receipt is acknowledged of your letter of December 6, 1940, in which you suggest that the United States is the equitable owner of the assets of the Federal Reserve Banks, that legal and equitable title are merged in the name of the real party in interest, and that therefore the United States is the legal owner of the Federal Reserve System.

As stated in the Board's letter of December 3, 1940, although the Federal Reserve Banks are corporations created by Congress as instrumentalities of the Government for the purpose of carrying into effect monetary powers of Congress, they are not owned by the Government. Their stock is owned entirely by the member banks of the Federal Reserve System. In a broad sense, of course, Congress and its instrumentalities may be regarded as representing and acting in behalf of the interests of the people of the United States; but clearly this is not what is meant by "equitable ownership" as used in your letter.

We have considered carefully the authorities referred to in your letter, namely 65 Corpus Juris, p. 516, relating to the English Statute of Uses, the case of *McGill* v. *Doe,* 9 Indiana 306 (1857), involving a statute which once existed in Indiana, the case of *Russell* Wheel & Foundry Co.

v. United States, 31 Fed. (2d) (CC.A. 6th, 1929), involving the United States Shipping Board Emergency Fleet Corporation, and 9 C.J.S., p. 1354 regarding the taking of security for loans made by Federal Reserve Banks. However, the principles established by these authorities do not appear to affect the question of ownership of the Federal Reserve System.

You state in your letter that the Federal Reserve Banks are "managed and operated at a loss to the general taxpayer." Even if it were true that the Federal Reserve Banks operate at a loss, it could not properly be said that this loss is borne by the taxpayer since the funds of the Federal Reserve Banks are not appropriated by Congress. As a matter of fact, however, the operations of the Federal Reserve Banks in accordance with the terms of the Federal Reserve Act normally yield sufficient income to cover their expenses and the expenses of the Board of Governors of the Federal Reserve System, to pay dividends to their member banks, and frequently to provide for additions to their surplus.

Very truly yours,
(Signed) L. P. Bethea,
Assistant Secretary

And third, if any further proof is needed, an excerpt taken from the hearings before the Senate Committee on Banking and Currency on the Banking Act of 1935.

Senator Glass. Do you think the Government, without one dollar of proprietary interest in the Federal Reserve banking system, should be authorized, without restraint, to loan the money of the System in open-market operations?

Secretary Morgenthau. Senator, I happen to belong to that school that thinks that the Government should own the stock of the Federal Reserve System; and then it would have that right.

Senator Glass. That is a different proposition. I am asking you if the Government, which does not own a dollar of pecuniary interest in the system, with the assets acquired over a period of 20 years by the exercise of banking skill —that the Government which has no pecuniary risk at stake should be permitted to spend other people's money without any restriction?

Secretary Morgenthau. Well, Senator, I am very timid about putting myself up against your opinion, because you have lived with this thing—

Senator Glass. I am asking you your opinion.

Secretary Morgenthau. I think that the Government has got everything at stake in this. This gets right down to the whole question of credit. After all, as I understand it, the Government is the people. And we have got everything at stake.

Senator Glass. Does the Government own a dollar of pecuniary interest in the Federal Reserve System?

Secretary Morgenthau. No; but I think it should.

Senator Glass. You are for a central bank owned by the Government, then?

Secretary Morgenthau. If I may put it this way, I would like to see, if Congress could work it out somehow, that the Government owned this stock and would surround the trustees of it with every possible protection and precaution, that they should not be subjected not only to political pressure but to that of private business and banking interests as well, and that they should keep just as independent as possible, and serve the financial and business interests of the country with only one motive in mind, and that is to serve them well.

Senator Glass. And to absorb all of the individual banks?

Secretary Morgenthau. No; oh, no.

Senator Glass. What does your central bank amount to if it does not absorb all the individual banks and use them as branches?

Secretary Morgenthau. You see, I came up to this posi-

tion through Farm Credit, which is a pretty big institution, and we have a somewhat similar situation there, I believe. We have strong regional banks with directors. But the question of interest is fixed here in Washington. The question never has been raised that the control of the Farm Credit should be held by anybody else but the Government, and I honestly believe that the trust that the Farm Credit had for the farmers and the millions and millions of dollars which they handled have been handled without outside influence.

Senator Glass. That was an emergency measure, was it not?

Secretary Morgenthau. I would not call it that.

Senator Glass. I am not talking about the Land Bank System.

Secretary Morgenthau. I consider Farm Credit a permanent institution.

Senator Glass. I know you gentlemen consider everything that has been done as permanent, but it started out simply as an emergency.

Secretary Morgenthau. I look forward to Farm Credit as an institution which I hope will live to serve the farmers for a long time.

Senator Glass. I can readily understand how one might advocate a central bank owned by the United States Government. We have had them. But I would like to get more definitely your judgment as to whether a Government should have the right to loan somebody else's money without restraint or restriction.

Secretary Morgenthau. I think it should have that same supervision over the credit of the country that it has over inspecting the banks or anything else. After all, I cannot make a distinction between the Government and the people.

It will be noted that both Senator Glass, co-author of the Federal Reserve Act, and Secretary Morgenthau agree without any dispute that the United States Government has not "one

dollar of proprietary interest" in the Federal Reserve banks.

It is the purpose of this chapter, however, to set forth ten reasons why the American people through their government should hold every dollar of "proprietary interest" in, and complete ownership of, the Twelve Central Federal Reserve banks.

REASON I

On February 3, 1942, Congress appropriated $1,450,000,000 to pay the interest on the public debt. This was of course by far the largest amount ever appropriated for that purpose. But it was only a fraction of what appropriations for the same purpose appeared likely to be in future years. On the next day the author of this book went into the well of the house of Representatives with a Federal Reserve Note in his hands and read to the membership these words which appear on the face of every such note: "This note is legal tender for all debts, public and private, and is redeemable in lawful money at the United States Treasury or at any Federal Reserve Bank."

All the resources and credit of the United States Government and the people stand behind this piece of paper, although this piece and others like it can only be issued by the Federal Reserve Board and only to and for the benefit of privately owned Federal Reserve banks. But if the United States Government sought to borrow any such notes it would be required to pay interest upon them just as if it had no connection with their issuance or their guarantee at all! It will be interesting to note here the language contained in section 16 of the Federal Reserve Act as amended which bears upon the matter of note issues.

> "Federal reserve notes, to be issued at the discretion of the Federal Reserve Board for the purpose of making advances to Federal reserve banks through the Federal reserve agents as hereinafter set forth and for no other purpose, are hereby authorized. The said notes shall be obligations

of the United States and shall be receivable by all national and member banks and Federal reserve banks and for all taxes, customs, and other public dues. They shall be redeemed in lawful money on demand at the Treasury Department of the United States, in the city of Washington, District of Columbia, or at any Federal reserve bank."

Federal Reserve notes are required by law to be backed by a 40% gold reserve and as a matter of fact they are today backed by well over 100% of something resembling gold. The reason we state it that way is because the gold all belongs, according to the Gold Reserve Act of 1934, to the Government of the United States. The "gold" of the Federal Reserve consists of "gold certificates in vault or due from the United States Treasury." The gold certificates do constitute a technical claim against the gold and the Secretary of the Treasury is required to "redeem" them on demand. But by law also he is forbidden to redeem them in gold! So it is plain that the Federal Reserve notes are actually backed by the credit of the United States and by that alone.

In Chapter I of this book we spoke of the Great Deception under which mankind has labored in modern times. We defined that Great Deception as follows: "That money which comes into being as a result of a government or an individual going into debt and contracting to pay interest to a private bank is sound money, but that any money which comes into being debt and interest free as a result of the action of a government itself is not sound money and is a very dangerous thing."

That distortion is the Great Deception. And need we any further proof of that fact than the spectacle of money (Federal Reserve notes) which can only be issued for the purpose of making advances to private banks but which becomes at once an obligation of the government and the whole people and which that government and people must guarantee and make good though they derive no economic benefit from its creation?

REASON II

Perhaps the most tragically ridiculous of all situations regarding the private ownership of the Federal Reserve banks was presented when on February 26, 1942, a bill was brought before the House to permit the Federal Reserve banks to purchase bonds of the United States directly from the Treasury.

But there was no special provision about the interest on those bonds. Interest was to be paid as usual—even on bonds bought, in the midst of war and dire national need, by a privately owned bank of issue from the people's own treasury!

It is some satisfaction to be able to reprint here a page from the *Congressional Record*—page 1760 of the *Record* for February 26, 1942.

> Amendment offered by Mr. Voorhis of California: On page 12, line 11, strike out the period and the quotation marks at the end of the line and add the following: ":And provided further, That all obligations of the United States bought directly from the Treasury by any Federal Reserve bank shall be non-interest-bearing obligations."

> Mr. Voorhis of California. Mr. Chairman, I offer this amendment because it is right. Other Members have made parts of my speech today over and over again. Other Members have pointed out that the Federal Reserve banks are privately owned institutions. They have also pointed out that when the Federal Reserve banks purchase obligations from the Treasury they do it with new money which they create for the purpose—generally in the form of credit upon their books. In other words, by that transaction the American people would be paying interest to a private institution when that private institution exercised the fundamentally governmental power of monetary creation. My amendment seeks to make that impossible.
>
> I know two objections that will be raised to it. One of them will be to say that you need to have these bonds so

that they can be sold by the Federal Reserve if desirable, and that they could not sell them if they did not bear interest. Of course that is true, but if the time comes when a further amount of interest-bearing bonds can be put on the market by the Treasury, the Treasury could then sell those bonds and redeem the non-interest-bearing bonds which the Federal Reserve had taken, if that were wise policy.

Another argument will be that you need to compensate these Federal Reserve banks for their work in handling the Government account. I submit that at present since they hold two and one-quarter billions of Government interest-bearing obligations, and the yield from that alone is $50,000,000 a year, I think they can get along. Member banks have received their 6-percent dividends regularly all through the depression and still, even in these years, a surplus considerably in excess of the paid-in capital has been accumulated.

There are three ways to finance this war. One is by taxes. The other is by real borrowing, whereby the Government obligations are sold to people who buy those obligations with money or credit that they have in their possession and which they give up in order to buy the bonds. The third method of financing the war is by what I call false borrowing. It is by money creation, which, however, takes place at present through the banks who create credit, backed in the end by the power of the Federal Reserve to issue Federal Reserve notes, and then loan that credit to the United States Government by purchasing interest-bearing obligations.

The gentleman from Virginia (Mr. Smith) offered an amendment which limited to $5,000,000,000 the amount of bonds that could be bought directly by the Federal Reserve. In my judgment that would not have made the slightest bit of difference in the amount of total bonds that would have been sold in this way. As the chairman of the Committee on Banking and Currency previously explained today, there is no essential difference between

selling these bonds to any commercial bank or selling them to the Federal Reserve banks, so far as bringing about the creation of new money is concerned. Had the gentleman's amendment been a limitation on the total amount of bonds that could be sold to any bank for newly created money, it would have been a very different proposition, and one very appealing to me as a matter of monetary principle. Because if you want to avoid inflation, if you really want to do it, the important thing is not who creates the money, not whether an interest burden is unjustifiably placed on the American people, but whether or not new money is created by anybody on the one hand, or on the other hand whether the war can be financed by means of taxes and the sale of bonds to the people for their real purchasing power which they give up to their Government temporarily.

I voted against the Smith amendment because it would only limit sales to the Federal Reserve—not to banks generally. It would not have prevented the manufacture of money by the banks—a thing which could happen in the colossal amounts already set forth today by the able chairman of the Banking and Currency Committee (Mr. Steagall). Therefore the Smith amendment would only have narrowed very sharply indeed the chance of the Federal Reserve to act in time of emergency and to keep down the rate on Government bonds.

My appeal for my amendment is very simple. I think it is indefensible to expect the American people to pay interest to a private banking institution when all that private banking institution does is to create money and purchase from the people's Treasury an interest-bearing obligation.

(Here the gavel fell.)

But on the next page of the *Record* there appeared this entry:

The Chairman: The question is on the Amendment of the gentleman from California.

The amendment was rejected.

Now, what is it that these private Federal Reserve banks "lend" to the United States when they buy these War bonds from the Treasury?

Let us take the testimony of Mr. E. A. Goldenweiser, himself the Chief of the Research Division of the Federal Reserve Board. In a paper entitled *The Nature of the Federal Reserve Banks* he has this to say about the source of funds of these banks.

> "A Reserve Bank, on the other hand, derives the funds available for its loans and investments from powers conferred upon it by Congress. The capital it has is prescribed by Congress and constitutes a small part of the funds at its disposal. The other source of funds of the Reserve banks is its power to issue notes and to accept and create deposits."

Note the words: "create deposits." It is with these created deposits that bonds of the United States are bought.

These twelve central banks create credit, called "Reserve Bank Credit," and with that credit they purchase not only the paper of member banks but also the interest-bearing obligations of the United States. Those bonds of the United States can, under present law, be used as security for an issue of Federal Reserve notes, and those notes are obligations of the United States. Hence, when the Federal Reserve banks buy interest-bearing bonds of the United States, they obviously buy them with the credit of the people of the United States and of the Government itself. "Reserve Bank Credit" is the American people's credit and nothing else.

REASON III

Member banks of the Federal Reserve System are not only permitted today to buy government bonds with new money created for that purpose but they can employ government bonds so purchased as collateral with a Federal Reserve bank and obtain an issue of Federal Reserve notes of like amount. The people of America must uphold the buying power of every one of those Federal Reserve notes by their productive labor, and the government and all its resources stand behind those

notes and thus enable the banks to profitably lend them into circulation at interest. Now let us suppose a member bank does deposit a Government bond as collateral for a Federal Reserve note issue and then fails to repay the Federal Reserve bank and thus redeem its collateral before the bond matures. Under the circumstances it would seem logical, would it not, that if the member bank does not redeem the bond before it matures and chooses instead to keep the Federal Reserve notes for its use, then that bond would cease to be a debt of the American people and would be considered as having been fully paid off? But that is not the case. No. In such a case the people of America would still, according to our strange and mysterious present methods, owe the full amount of that bond to the Federal Reserve bank holding it as collateral.

Whoever enjoys the privilege of putting money originally into circulation exercises the power to levy what amounts to a tax on all the rest of the people. For with new money any of the products of labor can be bought.

And so this whole affair taken together would amount to compelling the American people and nation to pay the banking system twice for the same debt. For the banks would have been paid once when they were privileged to secure Federal Reserve notes for the bond. And they would have been paid a second time when the government paid the Federal Reserve bank holding the bond the full face value thereof at the date of maturity. This is one of the quaint little vagaries that inevitably arise whenever the anomalous situation of a privately owned central bank of issue pertains.

It is true that this sort of double payment seldom has occurred in recent years for the reason that the member banks' need of cash money has not been great enough to cause them to use this method of obtaining it. But this is no excuse for perpetuating a law that makes such things possible.

REASON IV

As of May 1942, the paid in capital stock of the twelve Federal Reserve banks amounted to $144,621,000. Let us take a

look at the tremendous financial structure that has been built on that narrow base. The major assets listed in the statement of condition of the twelve Federal Reserve Banks for May 8, 1942, were as follows:

Redemption Fund for Federal Reserve Notes..	$ 14,871,000
Other Cash........................	297,613,000
Gold Certificates	20,494,411,000
U. S. Government Securities....	2,436,104,000
Total............................	$23,242,999,000

Against these assets we find the following major liabilities:

Federal Reserve Notes in circulation........	$ 8,876,906,000
Member Bank Reserve deposits.......	12,443,884,000
Other deposits......................	1,789,098,000
Total......	$23,109,888,000

A twenty-three billion dollar business built on a $144,000,000 investment! But not on that alone. Oh, no! On that small investment plus the greatest of all economic powers, the power to create money and to use the credit of a nation.

For it is to be noted that Federal Reserve notes—"redeemable in lawful money at the United States Treasury or at any Federal Reserve Bank" and therefore an obligation of the whole people of America—are listed as liabilities of these banks. And of course the one thing that made possible the acquisition by these $144,000,000 banks of $2,436,000,000 of United States government securities and $20,494,000,000 of gold certificates has been their power to issue Federal Reserve notes and especially their power to write figures upon their books and call them "Federal Reserve Credit."

It will be interesting at this point to observe what Mr. Goldenweiser, Chief of the Research Division of the Federal Reserve, has to say in his paper *The Nature of the Federal Reserve Banks* on the manner in which the Federal Reserve banks can employ their money creating power in acquiring gold certificates.

> "The note issuing power makes it possible for the Reserve banks to create funds. It is limited only by the

requirement that they must keep a reserve of 40 percent in gold certificates against their notes in circulation. The Reserve banks, therefore, can acquire gold, pay for it by Federal Reserve notes, exchange it at the Treasury for certificates, and then have authority to issue additional notes on the basis of reserves thus acquired. To illustrate in figures: A Reserve bank may issue $1,000,000 of Federal Reserve notes in exchange for that much gold purchased from a bank that has imported it from abroad. The gold can then be deposited in the Treasury in exchange for gold certificates or gold certificate credit on the Treasury's books. Forty percent or $400,000 of these certificates would be required as reserves against the Federal Reserve notes issued in payment for the gold, and $600,000 would be available as reserves against a further issue of notes. This issue could amount to $1,500,000 since $600,000 is 40 percent of that amount, and 40 percent is the required reserve.

"The power to issue notes, therefore, conferred by Congress on the Federal Reserve banks is a power to create funds when they are needed by the public."

No wonder these twelve private central banks have gathered in a surplus of over $184,000,000 after paying regular 6% dividends every year all through the depression to all the member banks upon their stock.

But what of the banking business, as contrasted with the money-creating business, of the twelve Federal Reserve banks? Here are the figures, as of May 8, 1942:

Industrial Advances	$ 9,950,000
Bills discounted and secured by U. S. Government obligations	7,103,000
Other bills discounted	821,000
Total	$17,874,000

Only seventeen million dollars of the kind of business the Federal Reserve banks were originally set up to do! And of this

over $7,000,000 rests upon obligations of the Government. Contrast this with the tremendous volume of "business" these banks have done in creating money, or "Federal Reserve Credit", and buying with it the bonds of the United States.

Twelve years ago only 20 percent of the earning assets of the twelve Federal Reserve banks consisted of United States Government securities. Today over 99 percent of their earning assets are United States Government securities. The detailed reasons for this change would take a long time to discuss. But the main fact is that the business of the Federal Reserve banks today consists practically entirely of the creation of money or Federal Reserve credit and the purchase with it of either gold certificates or interest-bearing bonds of the United States Government. This sovereign Nation has given to these privately owned banks the power to create its medium of exchange. But on the other hand, the Treasury of the United States must raise by means of taxes the money to pay the interest on or to retire the bonds purchased with costless credit by these private banks. We are paying interest to the Federal Reserve Banks for the use of the credit of the Nation itself, which is all on earth the Federal Reserve buys the bonds with. This situation should be ended by the purchase by the Government of the stock of the twelve Federal Reserve banks from the present owners (the member banks). Then the bank of issue of America would be, as it should always have been, a bank belonging to the sovereign people of the Nation.

REASON V

It is a function of the Federal Reserve Board to expand the monetary supply when the needs of business and industry require it. This it does primarily by using a device known as "open-market operations", whereby bonds outstanding in the hands of banks are purchased by the Federal Reserve Banks with credit on their books which is the equivalent of cash. The credit on the books of the Federal Reserve banks is the credit of the American people and their Government as has been shown.

These "open market" purchases of Government bonds by the Federal Reserve Board are made in order to increase the available supply of money, at any time when the supply of money needs to be increased because an increase in the production of goods has taken place—because the inventors of America, the businessmen of America, the workers of America, the farmers of America, have succeeded in turning out more real goods and services. It would seem logical, then, that by this efficient industry and the consequent buying in of some of their outstanding debt the people would have brought about a decrease in their national indebtedness. But that does not happen.

On the contrary, the public debt remains right where it was, and all that happens is the transfer of certain bonds from the ownership of a member bank to the ownership of the central Federal Reserve Banks. If these Federal Reserve Banks belonged to the people of the United States, then every time the people of America expanded their production of wealth and there was need and justification for expansion of money in circulation, the Board could still buy outstanding government bonds with the nation's credit exactly as it does now. The transaction would not need to be changed a single bit. But when that transaction was made *by the Board of a central bank belonging to the people,* which the Federal Reserve central banks would then be, the bonds that had been purchased with this national credit would be in the hands of a Government Agency, and as a matter of fact the National Debt would be decreased, the bonds retired, and the interest on them saved to the taxpayers. And surely it is a principle of justice that the people of America by their industry should be able to earn their way out of debt. Indeed our whole economic future may depend on our being able to do that very thing. If Congress made that one thing possible, if it enabled the people to know that, as their production of wealth increased and as they could thus justify economically an expansion of their monetary supply, they would thereby decrease their National Debt, a tremendous load of concern and worry would be removed from the minds of millions.

REASON VI

The original Federal Reserve Act, section 16, paragraph 4, provided that the Federal Reserve Banks should pay a small rate of interest to the Government on all Federal Reserve notes issued. This was, no doubt, done because it was so plain that the money-creating power was being given away by Congress to these private banks. But by one method or another this requirement has been avoided, and no such interest has ever been paid.

Again the original Federal Reserve Act, section 7, paragraph 1, required the payment of a franchise tax by the Federal Reserve Banks to the Government in the form of the annual delivery to the Treasury of all surplus over and above the guaranteed 6-percent dividend on the stock. This provision was repealed in 1933, so that no franchise tax is now required.

It was the hope in 1913 that the Federal Reserve System would prevent the growth of financial monopoly. Instead, about 75 giant financial houses control today about half the assets of the entire banking system of 15,000 banks, and the squeezing out of small independent banks proceeds apace with the march of branch banking. Large banks become ever more powerful, chain banks more extended, and the small banks have a more and more difficult time to maintain a position of independence. As of June 30, 1942, the 20 largest banks of the United States owned the staggering sum of $11,000,000,000 of government bonds—one-seventh, please note, of the entire interest-bearing national debt.

So that gradually and without much public discussion the private Central Federal Reserve Banks have been placed in the enviable position of enjoying the right to be the banks of issue of the United States without being required to pay anything whatsoever to the people of the nation for this central economic privilege. The only time that the nation as a whole can share at all in their earnings is in case of their liquidation—at which time the surplus would revert to the Treasury of the United States.

REASON VII

Already we have mentioned the more than $20,000,000,000 of gold certificates held by the Federal Reserve banks. Many people have wondered why this gold has not been put to constructive monetary use by our government and have pointed out that had that been done a very, very large amount of our interest-bearing debt could have been avoided. These people have read that "all right and title" to this gold was vested in the United States government by the Gold Reserve Act of 1934.

As a matter of fact neither gold nor any other single commodity has any importance whatsoever so far as the domestic buying power of money is concerned, nor is there a single reason why money that will buy bread and meat needs an ounce of gold backing. Gold may someday be useful once again in the settlement of international balances, but it is fervently to be hoped that no great nation will ever again tie its currency to gold and thus make it possible for international financial interests to make a most profitable business for themselves by artificially shipping gold back and forth between the nations and thus forcing the value of their respective currencies up and down. But it is true that merely by using the colossal gold hoard as a credit base—and without the necessity of printing a single additional dollar of paper currency—the United States Government could have available about $50,000,000,000 of interest free credit, on the basis of a 40% "gold reserve." This it could employ to pay for war or for any other purpose instead of selling interest-bearing bonds.

Of course, as this book has brought out over and over, there is no sensible reason why we should have to choose between gold-secured credit and interest-bearing debt. Once we understand what the credit of our nation really rests upon—our power to produce real wealth—and once we see, and act as if we saw, that this national credit belongs by right to the people as a whole, we shall then depend no longer upon either gold or interest-bearing debt for a stable, dependable and ample medium of exchange.

But this possibility of constructive use of the gold is brought forward here to illustrate two interesting points.

Thirty years ago schoolboys were taught that if there was a 5-percent gold reserve behind money it meant that the money was sound and to be depended upon. But today we talk about national bankruptcy when we have $20,000,000,000 of gold, enough on the old 5% gold-standard basis to back $400,000,000,000 worth of credit or currency. And the same people who once said that gold must back money now say it must not do so and that we must continue to base our money on interest-bearing debt—bank loans to the people or the government. (These people no doubt have a lively sense of how great a blessing to some few private individuals a public debt can be.) It is at least to be suspected that the reason for the change of position is that the gold once belonged to the banks, but now it belongs —if we can trust the law—to the people.

But does it belong to the people? The Gold Reserve Act says so. But the gold certificates must mean something. They are supposed to be the "equivalent of gold", and gold certificates, equal in amount to the entire gold hoard in the United States—except for the $2,000,000,000. stabilization fund—are the property of the twelve Federal Reserve Banks. These certificates constitute, therefore, at the very least a technical claim against the gold and a sort of paper barrier against the government employing the gold as a monetary base—which no doubt was one of their purposes from the beginning.

It is interesting to consider how the Federal Reserve Banks acquired all these gold certificates. Basically they acquired them by the use of their power to create money either in the form of Federal Reserve notes or in the form of demand deposit credits on their books. The way the first of these processes works was explained in the quotation from Mr. Goldenweiser above. The way the second process works is set forth in the following letter from the Assistant Secretary of the Treasury.

TREASURY DEPARTMENT
Washington

May 16, 1938

My dear Mr. Voorhis:

The following summary of the nature and effects of gold sterilization and desterilization, as put into operation by the Treasury Department, is submitted in response to your request of April 27, 1938, to Mr. Haas.

The customary operation of monetary systems on a metallic standard has been that *all imported and domestically mined gold* which has been placed on deposit in banks, *has constituted an addition to monetary reserves and, hence, has formed an added basis for the expansion of bank deposits and bank notes.* Under a sterilization program, however, all or part of such gold is withdrawn from the active monetary stocks of the country.

In order to describe concretely the process of sterilization actually employed, it is necessary to note the particular mechanics utilized in regard to the acquisition of gold in 1936, just prior to sterilization. At that time the Treasury Department received all gold imported or domestically mined and in exchange issued checks against its balances with the Federal Reserve banks to those delivering the gold. When the recipients of these checks deposited them with their own banks the reserves of the latter became correspondingly enlarged. The process so far was one by which funds held in deposit at the Federal Reserve Banks by the Treasury Department were transferred to the accounts of member banks.

The next step was that the Treasury Department credited the Gold Certificate Fund of the Board of Governors of the Federal Reserve System for the account of the Federal Reserve bank involved, or, at the option of that bank, *issued to it gold certificates, in an amount equal to the newly acquired gold. In exchange the Treasury Department received an equivalent deposit or deposits at the Federal Reserve banks, and in this way its balances with these*

banks were replenished. The mechanics employed with respect to accretions to the monetary gold stock prior to the approval of the Gold Reserve Act of 1934, were somewhat different from those just described, which were in operation from the approval of that Act until the initiation of the sterilization policy. Their effect upon bank reserves was the same, however, as those just described and the technical differences may be ignored.

With the introduction of the gold sterilization program on December 24, 1936, the procedure described above was suspended. The essential change was that the Treasury Department no longer paid for newly acquired gold by gold certificates or gold certificate credits based upon the new gold. It locked up this gold, in effect. In consequence, its bank balances were drawn down each time that gold was acquired. To replenish these balances, the Treasury Department sold interest-bearing obligations to banks and others. As the proceeds of these sales were transferred to the Treasury Department's balances with the Reserve banks, the member and non-member banks lost the reserves represented thereby, and, hence, the increase which had previously occurred in the reserves of the banks as a result of the new acquisitions of gold was offset.

As of April 14, 1938, the Treasury Department again restored the procedure in effect prior to sterilization in 1936, with respect to newly acquired gold. Furthermore, as of the same date, steps were taken to restore to the active monetary stocks all gold which had accumulated in the Inactive Account during the course of the sterilization program. *On April 14, the Gold Certificate Fund of the Board of Governors of the Federal Reserve System was credited with the amount of $1,392 millions* which was equal to the amount of gold in the Inactive Account and the Working Balance as of that date. The immediate effect of this operation was to increase the reserves of the Federal Reserve banks. The further effect will be that as the *Treasury Department draws checks against its balances* in the Federal

Reserve banks *to pay current operating expenses* and to pay off maturing public debt the sums representing the gold released from the Inactive Account will be added to the reserves of banks other than Federal Reserve banks.

Very truly yours,
(Signed) Wayne C. Taylor
Assistant Secretary of the Treasury

It is plain from the fourth paragraph in Mr. Taylor's letter that the Federal Reserve Banks acquired the gold certificates by crediting the Treasury of the United States with demand deposits. In other words, the Federal Reserve Banks acquired a claim against practically all of the most tremendous gold hoard in history by the simple process of writing some figures on their books and thus creating the money—in the form of demand deposits—with which to pay for the gold certificates.

Therefore it may be added as a minor sort of observation that, by spending $144,000,000 to purchase the capital stock of these banks, the people of the United States could clear their title to over $20,000,000,000. of gold.

REASON VIII

It might be different had the Federal Reserve Act accomplished its purpose under its present banker ownership. But it hasn't. For it was while the Federal Reserve Board was charged with the responsibility of maintaining a stable purchasing power in the dollar that the inflation of the First World War period took place, that the deliberate and vicious deflation of 1920 was carried out, and that the collapse of 1929 was permitted to bring to an end a whole epoch of American history and development.

It was the hope originally that the Federal Reserve System would prevent booms and depressions. But the fact is that the worst and most disastrous depression in all American history took place with this system in operation and was undoubtedly caused in part by the deflation effected in 1920 by the orders of the Federal Reserve Board itself. And the present Board by its

own statement has said over and over that it has no power adequate to prevent either disastrous inflation or deflation if certain forces favorable to either of these conditions should assert themselves. In the face of an inflation of bank credit the Board has not the power either to raise reserve requirements sufficiently nor can it engage in open market operations to a sufficient extent to check it. To its credit it must be said the Board has asked for increased latitude in its power over bank reserve requirements, though never has it asked for the power to increase them to 100% which is the only power that could meet certain conditions. Under the threat of inflation the Board ought to sell bonds so as to take money out of circulation. But if it did so it might contribute to a collapse of the Government bond market and a sharp fall in the price of such bonds, especially since the rate of interest on other securities would normally tend to rise in a period of boom. So this power is ineffectual. In the face of deflation there is nothing in the present Federal Reserve System that can effectively check it. This is true because we depend entirely for an expansion of our medium of exchange upon demand deposits created by the banks for the purpose of making loans at interest. And the very time when such loans are least likely to be made is a time of deflation when the Nation most needs an expansion of its money supply. The present monetary system of our country stands condemned by the statements of its own defenders.

And it is certainly appropriate to repeat here some facts given earlier in the book to indicate the calamitous changes in the buying power of the dollar which have been permitted to take place while the Federal Reserve Act has been in effect and the Federal Reserve Board has been charged with the duty of providing commerce and industry in America with a dependable currency. Remember as these figures are read that to the extent the buying power of the dollar becomes less every piece of property in America becomes more valuable, every monopoly holding more precious, the gap between those who possess and those who don't possess, wider. Remember also that to the extent the buying power of the dollar becomes greater the dollar

value of every farm and factory and every hour of labor goes down, every debt becomes that much more difficult to pay and requires that many more bushels of wheat and that many more hours of labor to discharge. And remember too, that when these things are constantly happening, first one, then the other, the inevitable effect is to throw more and more of both real property wealth and economic power into the hands of those who wield —unconstitutionally though it be—the power to create and to destroy the money of the American nation.

Here then are the brief, tragic figures:

Date	Buying Power of the Dollar (1926 = $1.00)
December 1915	$1.35
May 1920	.59
April 1921	1.01
October 1929	1.05
February 1933	1.67
October 1940	1.27
July 1942	1.01

REASON IX

The Federal Reserve Board is under constant and very understandable pressure to act as representatives of the private banks, which pay their salaries, rather than as representatives of the people whose destiny they so largely control. The Federal Reserve report made to Congress in January, 1941 came not from a government or public body but from a group of essentially private bankers. The Federal Reserve Advisory Council and the presidents of the Federal Reserve banks can certainly not be held to be in any sense public officers at all; and so far as the Board of Governors is concerned, while it is appointed by the President, its job consists primarily of the administration of affairs of the twelve central Federal Reserve banks, the entire capital stock of which is owned by the private member banks of the System. Every dollar of salary and expenses of the Members of the Board, the presidents of the Federal Reserve Banks and the Advisory Council is paid not by the United States Govern-

ment but by the private member banks of the Federal Reserve System.

It would take a group of supermen to sit in such a position and disregard the interests of the banks when it conflicted with the welfare of the nation as a whole.

REASON X

Few people know the tragic story of how the French Nation and Government permitted themselves to drift into a situation where a small group of virtually hereditary directors of the Bank of France controlled almost completely the destiny of that nation down to the very hour when Hitler's conquest took away from all Frenchmen their very right to call their souls their own. John Gunther in his book, *Inside Europe,* had the following significant things to say in this connection:

> "France is really run by a group of about 200 financial families whose central pediment is the Bank of France. Although this bank issues the public money of France and holds its gold supply, it is a private bank, not a state bank. By the terms of its basic charter only the 200 shareholders with the most stock are permitted to vote for the regents, who control it absolutely. . . . The regents of the Bank of France decisively control politics because by withholding credits from the treasury they can break any prime minister they don't like.'

Gunther pointed out further that only six of the eighteen regents are Government officials; the other twelve comprising six representatives of the largest private banks in France and six representatives of dominant French industries. The six regencies held by the banking houses have been passed down in hereditary fashion from father to son for generations.

They held in the hollow of their hand the destinies of the French Republic and they were able to do so because the power to issue money and create credit had been allowed to remain in

the hands of a privately owned financial institution instead of being made part and parcel of the basic sovereignty of the nation itself.

At what may have been the critical turning point in French history—the period of her severe deflation—the private Bank of France assuming its role as a completely independent institution refused to discount the government's obligations or to provide it with any advances and this rendered impossible any sort of recovery program.

Had these things not been so, the fate of France might have been different from what it is today.

A privately owned central bank of issue is as bad or worse than no central bank at all.

SUMMARY AND CONCLUSION

The Federal Reserve banks are to all intents and purposes the banks of issue of the United States; they put Federal Reserve notes, our legal-tender currency, into circulation. They have been given gold certificates which give them a lien against over $20,000,000,000 of the gold in Fort Knox. They create money at will in the form of Federal Reserve Credit and when they do so they obligate all the resources of all the people to make that credit good. They execute the open-market policy of the Board, which determines largely the price of government securities, as well as the volume of money in circulation; they rediscount for the commercial banks. But the Government and people of the United States own not one penny of stock in these banks. They belong lock, stock and barrel to the commercial banks which are members of the Federal Reserve System.

The Federal Reserve Banks should become the property of the American people and they should be operated as one central bank of issue under a specific mandate passed by the Congress. Their sole purpose should be to serve the general welfare of all the American people, their agriculture, commerce, and industry, by providing at all times a dollar of steady, stable and constant buying power.

By spending $144,000,000 to purchase the capital stock of the

central Federal Reserve banks from the private member banks Congress would do the following things for the American people:

First. Acquire an accumulated surplus of over $184,000,000 (as of May 8, 1942).

Second. Reduce the public debt immediately by at least $2,436,000,000, the amount of United States bonds held by the central banks on May 8, 1942, and bought with credit on the books of the banks created for that purpose.

Third. Restore to Congress its constitutional duty and right to issue the Nation's money and regulate its value. The Federal Reserve Banks are now the bank of issue of America. As such they should be—they should always have been—an agency of Congress and the property of the American people.

Fourth. Place our Nation in the position of being able to answer the problem of interest-bearing public debt.

Fifth. Silence once and for all the charge that international banking interests are in any way influencing the policy of our country.

Sixth. Finally, the purchase by Congress of the twelve central banks would mean that the Nation could earn its way out of debt, that when the Federal Reserve Board purchased outstanding Government bonds from member banks in order to expand the volume of money and credit in circulation those bonds would belong to an agency of the Government and would in effect have been retired without the necessity of any tax revenues being used to do so. Interest upon such bonds would, of course, be saved. Hence by increasing their production the people of the Nation would, if only the twelve central banks were a Government institution, be able to earn their way out of debt.

If Congress does not do this, we will have to account to the Nation for our failure to do it. We will have to tell the people why we marshaled all other resources for national defense but left control of the Nation's own credit in private hands. We will have to tell them why we failed to take this constructive action, even when the welfare of a nation was at stake. We will have to tell them we deliberately decided to afflict them with an interest-

bearing debt when we might by a simple act have avoided doing so.

The success of our war program, the protection of our Nation's future against a gigantic public debt, and consequent probable inflation, and, above all, the establishment of a means whereby, without increase in debt, we can keep our active monetary supply in line with our power to produce—all these depend on constructive action on this matter.

There have been introduced into the Congress a number of very simple bills which provide but one thing—purchase by the Government of the capital stock of the twelve central Federal Reserve banks. They are about one page long and can be read in about one minute.

Now, this proposal rests not only on the reasons just given but on two utterly unassailable principles of justice and good government. The first is that the power of original creation of money is an inalienable right of government and cannot be delegated away to any private agencies without violating the fundamental sovereignty of a nation. The second principle is economic. It is that whatever profit or advantages come about from the original creation of any volume of the medium of exchange —whether by coinage or printing of money or by expansion of credit—should always accrue to the people generally and never to any privileged or selected group of them.

This is no new problem; nor are the two principles given above new principles. As long ago as 1824 the great English economist, David Ricardo, left behind him at his death an unanswerable argument in favor of having the English Government instead of the private Bank of England issue the nation's money. In the course of Ricardo's argument he included the following paragraph:

> "If the view which I have taken of this subject be a correct one, it appears that the commerce of the country would not be in the least impeded by depriving the Bank of England of the power of issuing paper money, provided an amount of such money, equal to the bank circulation, was

issued by government; and that the sole effect of depriving the bank of this privilege would be to transfer the profit which accrues from the interest of the money so issued from the bank to government."

In Appendix II is the text of a simple bill that would make the twelve central Federal Reserve banks the property of the American people.

II.

"TO PROVIDE FOR THE COMMON DEFENSE"

A WAR LIKE World War II—a total war where whole peoples and their entire national industries are thrown into the conflict along with armies and navies—calls for monetary and financial policies very different from those that should be employed to make possible full production and employment in peace time. And, as has been suggested in Chapter V, the removal of the statutory limit on the National Debt was important as an indication of America's determination but was by no means an answer to the financial problem the nation faced.

Total war causes a decrease rather than an increase in production of consumed and capital goods which constitute the only proper base and security for the value of a nation's money.

In a total war a nation must devote the maximum possible percentage of production to turning out war materials. And in order to do this the production of civilian goods and of plant for producing civilian goods must be deliberately reduced as much as possible.

Production of what can accurately be called wealth is therefore likely to be many billions of dollars less in a period of total war than it was before. But only this sort of production can properly be considered in determining monetary policy and the volume of money that should be in circulation.

A battleship or a bomber is certainly necessary to a free people in a world that contains a Hitler. But neither the battleship nor the bomber can ever increase the production of the things people buy and use.

As has been pointed out many times in this book, when the nation needs to increase its production and a portion of its machinery is standing idle, or when its production of useful wealth is actually increasing, the right monetary policy is to increase the volume of money in circulation in order to maintain a balance between goods for sale on the one hand and money to buy them with on the other.

But when the nation's primary need is military power and, therefore, the production of ever increasing amounts of armament, the whole situation is reversed. It seeks then to reduce the demand for civilian goods to a minimum of real necessities, to make possible the shifting of as much of the population as possible into direct war work, and to prevent at the same time an increase in the cost to the people of the civilian goods that are available. The problem of total war is just the opposite of the problem of prosperity in peace time from the monetary standpoint.

The cost of World War II to the United States cannot be calculated by adding up the total of all the appropriations bills passed by Congress. The total amount appropriated between July 1940 and July 1942 was close to $225,000,000,000. But the question remained after all this heroic appropriating was finished whether or not the money could be spent!

It would seem a little foolish at first to conceive of our Government having any trouble spending money! But the thing isn't quite as simple as drawing checks or even signing contracts. The real problem is found, in a situation such as World War II presented, in how much war material the mines, farms, factories and transportation system of the country can produce. And the financial burden of the war will be equal to the cost of war materials actually produced with the practical limit being not the amount of money available for expenditure but the nation's ability to devote half, three-fifths, three-quarters or some other percentage of its total productive power to armament and still keep going.

In other words, America will *spend* as much on World War II as it can *produce* for war.

War is total economic waste. We sometimes talk about war "production". Really we have no right to talk that way. Regardless of the righteousness of the cause to be served, when steel and copper and man-hours go into a destroyer or a tank there can never be any economic value in that steel, that copper or in those man-hours, after that!

They are part of the sacrifice of the people to the cause of Freedom. For this reason it is utterly unsound to think that even untold billions of armament can ever secure the value of a single dollar of money or of National Debt.

For the people can't buy the armament. And as has been previously stated, the one thing that gives our dollars their value to us is the volume of goods available for us to buy with them.

So even if we increase our total production, including that for war, to $120,000,000,000 there would not necessarily exist any economic justification for the issuance of new money. For it is only that part of the production which turns out goods for sale to consumers that can serve as a base for monetary value.

Since war is a total economic waste, the only 100% honest and right way to pay for any war is by taxation. Only if the production of civilian goods actually were increased during the war could we justify on sound monetary principles the creation of new money by anyone. And instead of an increase in production of civilian goods, World War II meant a net reduction in the output of civilian goods because so much machinery and materials and manpower had to be devoted to the war.

Let us use some figures to be sure these points are clear. Let us suppose total production in a certain fiscal year during the war to be $120,000,000,000. Then let us suppose that $60,000,000,000 worth of war materials are turned out in that year, together with $60,000,000,000 of civilian goods. Of the $120,000,000,000 valuation placed by producers on this gigantic output a part will be salted away in depreciation accounts and another part will come about as a result of more efficient use of equipment already in existence. So that not all of the $120,000,000,000 will be paid out to the people in wages, salaries,

rent, interest, dividends or profits. But most of it will. Let us say $110,000,000,000 of it.

Assuming that figure to be correct there would be $50,000,000,000 more buying power available to the people in that year than the total available supply of goods to spend it on if the Government took none of it in taxes and if none of it were saved.

To the extent that the total amount of taxes collected is less than $50,000,000,000, we shall not only have failed to pay for the war in the way we ought to but we shall have left excess buying power in the people's hands, the only effect of which can be to drive up prices. And while it is true that if bonds are sold to the people for money they actually possess. this excess buying power will be reduced, it is also true that by this process the cost of the war will be shifted to entire future generations of taxpayers for the benefit of the particular people now purchasing the bonds.

Finally, to the extent that bonds are sold to banks for new entries on their books, we shall not only be shifting the cost of the war plus interest on to our children but we shall also be causing new money to be created at exactly the wrong time.

Now to say it is economically impossible to collect enough in taxes to pay the whole cost of a war is clearly wrong when we stop and analyze it. For the true cost of the war in any given year is equal to the proportion of the total national production that is devoted to war materials. And that part of production cannot be bought by the people anyway. So if we levied total taxes equal to the total cost of the war, what we really would be doing would be taking away from the people that portion of their income which, at current prices, they just couldn't spend anyway. And in very general terms that is ideally what we ought to do, so that when the war was over we would be not one penny deeper in debt than we were at its beginning, and so that there would be exactly no danger of any general inflation of prices.

Of course it isn't quite as simple as that, however, for it would be humanly impossible to devise a tax schedule as heavy as that which would not be ruinous to some groups in the population

whose economic condition had been made worse, instead of better, by the armament boom. Debtors would find it practically impossible in many cases to make their payments. And other extremely serious problems would be created. Therefore, we might as well admit that, largely for the reasons just given, it is *politically* impossible to pass a tax law that would pay the whole cost of the war through the Congress or get it accepted by the people of the nation.

And there is one consideration of importance against attempting it. For in the post-war world there will be grave danger of a most serious deflation unless in the meantime steps are taken to sustain a full volume of consumer buying power through the years. One way to do that would be—not to sell bonds on a hit or miss basis and mostly to the rich—but to have a reasonable program of compulsory savings so that every family in America would have a reserve of buying power for its protection. Such bonds as were bought by the people under such a plan should be non-transferable. Not all of them should come due at once but some should be payable right after the war, some three months after, some six months after and so on. And part of the funds needed to repay them could properly, at that time, be created by the government. For at that time there ought above all things to be assured a very great expansion of production of real wealth, i.e., goods and services that people need and can buy. And that sort of production can and does give money value—is in fact the only true security for its value to the people.

As this chapter is being written we are not paying for the war by means of taxes. We do not have a compulsory savings program looking toward prosperity and full production when the war ends. We are not even limiting our sales of bonds to individuals and corporations who must give up real money (buying power) in order to buy them. We are taxing to some extent, and selling some bonds for already existing money, but we are "selling" an alarming amount of bonds to banks for newly created money in the form of demand deposits on their books.

Here are the figures. In fiscal year 1942, we ran a deficit of \$21,696,000,000. That is, our government spent that much more than it collected in taxes. To cover that deficit, interest-bearing bonds were issued and sold. And 45% of this gigantic amount of added National Debt was sold either to the Federal Reserve Banks (4%) or to commercial banks (41%), and practically all of these bonds were paid for with brand new demand deposit figures on the banks' books. In other words, approximately \$9,750,000,000 of new money was created by the private banks of America in fiscal year 1942 for the sole purpose of purchasing interest-bearing government bonds. And this at a time when business, industry and every housewife in America was being regulated and re-regulated by a newly created Office of Price Administration in an effort to prevent inflation!

Worse still, every dollar of interest-bearing debt that was added to our already staggering total meant that somewhere, sometime, other Americans would pay to the bondholders approximately two dollars of principal plus interest for every one dollar's worth of war material secured now.

Under a scientific monetary system, with the supply of our money geared to the production of our wealth, such things could not happen. They would be against the law. With such a system in effect, and the conditions of World War II pertaining, statutes would forbid creating any new money through any agency whatsoever. We would then be compelled to pay for war either out of taxes or by means of bonds sold for actual cash. And we would be in a far healthier condition if this were the case. Nor would we have need for an Office of Price Administration, except to prevent monopolies controlling the supplies of really scarce materials from taking advantage of the situation. And even these problems could and would be met, without government action, by cooperatives of the people if they were strong enough—as strong for example as they are today in Sweden and as some day cooperatives will be here.

A sound monetary system is, then, the very opposite of governmental regimentation and bureaucratic control. And the

price we pay for our failure to establish such a monetary system is the creation of additional governmental bureaus and agencies in an attempt to patch together with splints an economic body whose heart and circulatory system are chronically diseased. We shall return to this theme in just a moment.

In the summer of 1942 expressions of alarm began to appear in the press and periodicals about the inflationary danger from the creation of so much new money. The whole idea of "new money" was suddenly discovered. But most of the articles—notably one by Mr. Harry Scherman in the *Saturday Evening Post* and widely quoted—persisted in making the obviously false statement that the Federal government was creating the money, instead of telling the people the simple truth, namely, that every dollar of it was created by the private banks and sold at interest to the government through an exchange of demand deposits for interest-bearing bonds.

These writers must have known that by May of 1942, the banks of the nation, with total resources—including capital, surplus, and undivided profits—of approximately $7,000,000,000 had acquired ownership of $25,488,000,000 of the interest-bearing bonds of the United States government. What had the banks used to buy the bonds with? One cannot purchase a $25 hat for his wife with $7! Of course the answer was—and is—that the banks, taking advantage of our fractional reserve system, had manufactured demand deposits and used them to buy over one-third of the bonds representing the National Debt of the American people.

If any further proof be needed to establish this point and to expose either the ignorance or the inexcusable inaccuracy of these writers, it is easy to obtain. For example, in the course of hearings before the House of Representatives Banking and Currency Committee on June 17, 1942, the following very illuminating exchange took place on the subject of purchase of government bonds by the banks. It is important to bear in mind as these passages are read that Mr. Eccles speaks as Chairman of the Board of Governors of the Federal Reserve System:

"Mr. Patman. What are the excess reserves (in the banks) at the present time?

"Mr. Eccles. They are running around two billion five hundred million.

"Mr. Patman. How much could they (the banks) buy in Government bonds if they were to use the excess reserve to the limit?

"Mr. Eccles. About $12,000,000,000.

"Mr. Patman. $12,000,000,000?

"Mr. Eccles. Yes, sir; that is, assuming that the deposit structure and the present structure does not change.

"Mr. Patman. It would be about $12,000,000,000?

"Mr. Eccles. Yes; you see, the Federal Reserve requirement is about 20 percent.

"Mr. Patman. Yes, sir.

"Mr. Eccles. For the country it is 14, and for the central Reserve cities it is 20, and for the Reserve cities it is 26, so that we figure on about a 20 percent Reserve requirement, so that on the basis of $2,500,000,000, if that were all fully utilized on the fractional Reserve basis, I would estimate that they could buy about $12,000,000,000 worth of governments, that is, if it were utilized fully and completely through the entire Reserve, all the banks."

In other words, on the basis of $2,500,000,000 of excess reserves the banks can buy $12,000,000,000 of government bonds. Let those who talk about the Federal government creating money inform us where the banks get the other $9,500,000,000. The answer is, of course, they create it out of thin air and ink.

Continuing with the testimony:

"Mr. Patman. Suppose today they bought those $12,000,000,000 of bonds, what would they have back of those bonds to support them in addition to what they have now? In other words, what increased assets would the bank have except Government bonds?

"Mr. Eccles. They would have the Government bonds

themselves, which would be an asset, and they would have a liability, however, in the form of a deposit. They would be in pretty tough shape if they had that deposit liability without the assets."

So the banks buy government bonds with government bonds. It is all very simple. If a farmer or a grocer tried it, of course it wouldn't work, but a bank can buy a government bond with credit created for that purpose and then use the bond as security for the credit with which it was bought! Congressman Patman then proceeds:

"Mr. Patman. Governor, in regard to the excess reserves, it is not contemplated that you expect to change these reserves so that the larger banks can buy more Government bonds? You do not have that in mind now?

"Mr. Eccles. Well, it is not done, I would say, for that purpose, primarily or specifically. If we wanted to enable the banks to buy a lot of bonds we could.

"Mr. Patman. By lowering the reserve requirements?

"Mr. Eccles. By lowering the reserve requirements, yes; or we could step up and buy a lot of bonds directly by 'Fed' itself, and put more reserves in by open-market purchases. What we would like to see done is more of the Government bonds placed outside of the banks, and we would like to see an expansion of the bank-deposits structure go up as slowly as possible. We feel that there is an element of danger in a too rapid growth or in too large an expansion of deposit currency.

"Mr. Patman. I agree with you that the bonds should be sold outside of the banks, and I think we should encourage selling the bonds outside of the banks. . . . Let us suppose that the banks are called upon to buy $12,000,000,000 of Government bonds today. That consumes all of their excess reserves. If you wanted to increase their excess reserves in order to buy another $12,000,000,000 of Government

bonds, how would you do that, through the Federal Open Market Committee?

"Mr. Eccles. We might decrease the reserve requirements.

"Mr. Patman. How would you decrease them?

"Mr. Eccles. I think it runs between $5,000,000,000 and $6,000,000,000.

"Mr. Patman. Between $5,000,000,000 and $6,000,000,000?

"Mr. Eccles. Yes; somewhere between five billion and six billion.

"Mr. Patman. If it were decreased as you suggest, that would enable you to buy how many bonds?

"Mr. Eccles. If we decreased it to the full amount, then the reserve requirements are 10 percent instead of 20 percent, and you can buy about 10 to 1.

"Mr. Kean. What does change it from 5 to 1 or 10 to 1? Would you explain that again?

"Mr. Eccles. As it is the requirements of the Federal Reserve Bank System of the country as a whole are about 20 percent. If we changed the reserve requirements to the full amount we could then say the reserve requirements are only 10 percent instead of 20 percent, and you can get about 10 to 1, and that would be about $50,000,000,000."

Which is, of course, to say that by reducing reserve requirements by $5,000,000,000 the banks would be enabled to create $50,000,000,000 of demand deposits with which to buy government bonds. So much for the question as to who was creating the new money about which justifiable concern began to be expressed in the summer of 1942.

Wars can always be paid for financially by the same generation that fights them and pays for them in materials, manpower, blood and tears—if that generation wants to do it. The major portion of the financial cost ought to be paid out of current taxes—and could be, for otherwise it will be paid for in inflated prices. America at the height of World War II should be

paying taxes at the rate of about $40,000,000,000 a year. It is vitally important, of course, that any such tax burden be distributed so it will reach practically all excess buying power but leave untouched that minimum income which, for the nation's sake, every family needs to have if health is to be maintained and malnutrition avoided.

The difference between $40,000,000,000 and the annual expenditures on the war ought to be made up by sales of non-transferable savings bonds sold to individuals or non-financial corporations for cash. Here again such sales should be distributed in such a way that at war's end there will be no great holdings of the National Debt in the hands of a few families but so that every family in the land possesses some share in this reserve of buying power. And it is certain that such a result can be obtained only through a compulsory savings system.

And if there is any gap left, that is, if the sum of tax revenues and the proceeds from the sale of this type of non-transferable war savings bonds fails to equal the total of governmental expenditures, then—this above all—that difference should be made up not by sale of bonds to banks and consequent increase in interest-bearing debt but by the direct use of the credit of the nation. Any increase in the National Debt of America that results from World War II should be either a debt owed to virtually all the families of the nation on non-transferable War Savings Bonds or else it should be a non-interest bearing debt. At least two bills now before the House of Representatives embody these principles—H.R. 1 (78th Congress) introduced by Representative Patman of Texas, and H.R. 112 (78th Congress) introduced by the author of this book. The text of H.R. 112 can be found in Appendix III.

Another bill, sponsored by the American Social Credit Movement and introduced much earlier—in fact even before America was drawn into the war—embodies the same general approach to our problem but avoids the use of the Federal Reserve banks and contains certain added features. This bill, H.R. 374, is based on these principles: first, that war being what it is, sheer economic waste, can only be paid for out of

taxes and that production of war materials should never be regarded as a base or security for money or debt; second, that the levying of appropriate taxes will take time and that meanwhile we must go ahead with the business of defending our country; third, that since it is a sovereign right and power of Congress to create money, there should be no borrowing at interest but instead a direct use of the nation's credit to pay for the war expenses currently; and further, that such credit as might be advanced in this manner should be retired out of taxes which should be levied on a sufficiently heavy scale to take out of circulation an amount of money equal to the cost of the materials actually consumed by the fighting of the war.

Writing in *The University Review,* published by the University of Kansas City, the economic journalist, Gorham Munson, said of H.R. 374 (78th Congress):

> "At what rate should the new money be issued? And how shall it be called back? . . . The new money shall be issued at the rate of production of war goods; as the defense articles come into being, so does the money which represents them. The new money shall be recalled to the Treasury at the approximate rate at which the war goods are delivered to the military and naval establishments of the U. S. . . . The generalized principle is that money should be cancelled at the rate of consumption of articles produced.
>
> "The means adopted for getting back from the community the money distributed in respect of new armament production is a tax schedule adjusted to the rate of delivery of the armaments. This pay-as-you-go tax schedule would naturally be a stiff one, but it would meet and defeat any inflationary tendency that was not otherwise controlled by the price-fixing methods normally employed by governments in war situations. . . .
>
> "In H.R. 374 the money taxed back by the Treasury is paid into a National Debt Reduction Account and is used to meet all payments of interest and principal of the direct

obligations of the Government as they mature. By this remarkable stroke the people of the United States in making their armament effort would actually be paying off their National Debt. The National Debt would be converted into a permanent non-interest-bearing non-inflatable currency, the immediate effect of which would be a consistent reduction of interest charges on the national budget."

Legislation like H.R. 112 or H.R. 374 would serve this nation's future well. For if the story of fiscal year 1942 is repeated, that future can only hold an outlook as discouraging as it is unnecessary. Unless new and wise policies are adopted, we are headed for a National Debt of close to 200 billions by June 1944. That means annual interest charges of $5,000,000,000, even at 2½%. And when the war will end no one can say. The interest-bearing debt of any nation can become so great that the interest upon it will consume a greater share of the national income than the people will bear in peacetime. And then indeed the spectres of deliberate inflation and repudiation will rise to haunt every man who insisted that we stick, during World War II, to financial methods and policies as obsolete and dangerous to our country as would have been the sending of an army into battle in 1942 armed only with flintlocks and tomahawks.

A debt that is a non-interest-bearing debt can be paid off when, as, and if it is good policy to pay it off, but a debt that is an interest-bearing debt hangs a burden on the people that increases as time goes on. And yet the same production of wealth by the people and the same power of the Government to tax that makes good the interest-bearing debt can the more easily secure the value of and back the non-interest-bearing debt. Part of the hope of our people may be involved in our understanding these things as time goes on.

Whether we finance war by interest-bearing bonds or by a non-interest-bearing use of Government credit, future tax revenues must be expected to retire either of these at some future time. It is therefore purely a question as to whether we shall saddle our people with the necessity of paying interest

upon and eventually retiring out of future tax revenues a huge interest-bearing debt or whether we shall be sensible and patriotic enough to use the sovereign power of the Nation to create its own credit directly in the form of non-interest-bearing notes or other credit instruments and provide an appropriate tax mechanism to satisfactorily retire these credit issues when and if necessary to prevent inflation from resulting.

The difference between borrowing privately created money at interest and using the methods proposed in this chapter is simply that borrowing at interest will require somewhere in the neighborhood of twice the amount of future tax revenues to amortize these expenditures and pay for the war. Surely the people can be spared this double burden. Surely since we are calling upon every American for genuine sacrifice to help win the greatest military struggle in history, the very least our government should do is to stop paying 2½% interest tribute to privately owned banks in order to induce them to create money and thus to exercise for their own gain what is properly a sovereign right of government. For over the life of such an interest-bearing debt as we are now contracting the amount of interest payments alone will amount to at least $100,000,000,000!

Former Senator Robert L. Owen, in his letter on financing the war written to Secretary Sheetz of the American Livestock Association set forth the following seven points as his program:

"(1) Have Congress authorize and direct the Secretary of the Treasury to buy all the stock in the Reserve banks.

"(2) Have Congress direct the Federal Reserve Board to manage and control the Reserve banks, and manage them as one institution.

"(3) Authorize the Secretary of the Treasury to place with the Federal Reserve banks from time to time non-interest-bearing certificates of indebtedness of the United States to the Federal Reserve bank in the amounts necessary to finance the war.

"(4) Authorize the Federal Reserve Board to raise the reserves of the member banks against all deposits except savings accounts up to 100 percent with permission to deposit United States bonds with the Reserve banks at par as a portion of such reserves and/or other sound bankable assets for the same purpose. Authorize and direct the Reserve Board to use all the powers of the System to regulate the value of money and maintain it at a predepression level.

"(5) By statute remove the double liability of stockholders of member banks and otherwise make attractive the investment of credit money in the stock of member banks.

"(6) Increase the insurance of bank deposits to cover all such deposits regardless of amounts, also insure the banks against robbery or defalcation by officers.

"(7) Limit taxes on bank stocks to the earnings of such stock at the source in order to make more attractive the investment of money in bank stock, thus withdrawing the unemployed money into bank-stock investment."

Were such a program followed there could be no such performance as took place in 1942, for with a 100% reserve system in effect there could be no creation of $9,750,000,000 or any other amount of new money by the banks. Moreover, this proposal would be counter-inflationary in that to the extent that we failed to tax to pay for the war and resorted, therefore, to the creation of new money by a Government-owned Federal Reserve bank, there would occur a corresponding reduction in the money creating power of the private banks as reserve requirements were increased.

In other words, if we wish to avoid further increase in our interest-bearing National Debt after we have done the best we can with taxation and War Bond sales for cash, here is how we could proceed. The Secretary of the Treasury could be instructed by

Congress to sell non-interest-bearing certificates to the Federal Reserve Banks. The Federal Reserve banks would buy these certificates with Federal Reserve Credit, which is only another name for the American people's credit derived from all the industry and commerce of the land. The Treasury would then have a credit balance on the books of the Federal Reserve. The Secretary of the Treasury would draw checks against that credit balance to pay for the war. Those checks would be deposited in the commercial banks of the Nation. Those deposits would, it is true, have the effect of increasing the banks' reserves and hence, under present practice, the power of the banks to make loans of new money. But this inflationary influence could readily be avoided and the reform proposed in Chapter IX of this book accomplished at the same time. For it could be provided that as the banks acquired additional reserves through these war expenditures the Board should gradually increase reserve requirements until they reached 100%. In this way most of the inflationary effect of the new money created to pay for the war would be removed.

The only reason, then, why a single dollar of additional interest-bearing National Debt should result from World War II is if we desire to sell non-transferable War Savings bonds to the people generally in order that they may build up a reserve of buying power for the after-war period. On such bonds of course a small rate of interest should be paid.

As much as is possible we should tax at the rate that the war destroys.

And to the extent that we fail to cover the whole cost of the war by these two methods and are forced to resort to new money creation, we should use, in accordance with one of the methods herein suggested, the Constitutional power of the Congress to issue that money and then to regulate its value. In the long run the avoidance of inflation or repudiation will only be possible if control over the creation and destruction of money in America is in the hands of a responsible governmental agency operating under a direct mandate from the Congress and ac-

cording to statutory rules and procedures calculated to give America a dollar of sustained and stable buying power from one generation to the next. Even in the midst of total war these things can be achieved. And in certain very important respects, their achievement under the impact of total war is more important than it has ever been before.

12.

"TO PROMOTE THE GENERAL WELFARE"

> "The validity of a money token seems to me to derive from the fact that its possessor in acquiring it gave up value equal to the value of the token, the workman, hours of labor, the manufacturer goods, the renter use of a house, land or money, and so on, and it is this value previously given up voluntarily that the token enables him to obtain at his own convenience on demand.
>
> "To allow one set of privileged people—and in a so-called Democracy too!—to escape this necessity of giving up equivalent value prior to demanding it back, defeats the very object of money itself and must in time destroy it as an institution. I regard the movements towards communism and barter, which were the means of distribution prior to the invention of money, as due to this attempt to undermine the essential nature of money itself."—Professor Frederick Soddy in a speech to Members of Parliament.

It is not the contention of this book that all the troubles and woes of man can be removed by the establishment of a scientific monetary system. It is its contention that until such a system is established other attempts to remove those troubles cannot succeed. For as Alexander Del Mar wrote in 1885 in his *History of Money in Ancient Countries:*

> "When the principles which underlie it are thoroughly understood, money is, perhaps, the mightiest engine to

which a man can lend his guidance. Unheard, unfelt, almost unseen, it has the power to so distribute the burdens, gratifications, and opportunities of life, that each individual shall enjoy that share of them to which his merits entitle him, or to dispense them with so partial a hand as to violate every principle of justice, and perpetuate a succession of social slaveries to the end of time."

This chapter is entitled "To Promote the General Welfare," a phrase taken from the preamble to the Constitution of the United States, and an objective to the attainment of which the government created by the Constitution was dedicated.

In order to promote the general welfare there are two commandments that we must observe.

The first commandment is: Government shall prevent changes from taking place in the buying and debt-paying power of the money which all its people must use to buy their bread and meat, to transact their business, to pay their debts and to make possible their production.

And the second commandment is: Government shall retain unto itself and itself alone the power to levy taxes upon the property and labor of the people. Therefore, it shall prevent any privileged group of people from securing money without giving in exchange for it something of equivalent value. And since whoever creates money does secure it for himself without giving anything of value in exchange, and thus lays a tax on all the rest of the people, the government shall effectively reserve to itself the sole and exclusive right to create the money of the nation.

The justification of our first commandment is this: Money, in any sane economy, must be the ready means of moving from producer to consumer all the goods and services the producers can turn out if everyone is employed. Money should not be a factor that decides *whether* goods and services are to be moved from producer to consumer. So far as possible, therefore, the relationship of money to commodities—its value in terms of commodities—should be constant. For until this is the

case our industries will not be able to produce abundant goods and services on the logical ground that they are needed and can be sold at a fairly assured price; but will, instead, produce goods only when it appears that the value of goods in terms of money is going to rise, and will refrain from producing them when it appears that their value in terms of money is going to fall. Until we have a dollar whose purchasing and debt-paying power will remain relatively constant from year to year, we cannot proceed with any assurance to the solution of the manifold other problems that should claim our attention—such for example as the problem of assuring agriculture of its fair share of the national income.

Some people contend that, since technological improvements tend to reduce costs of production, we should try to have a constantly declining price level instead of a stable one. There are two answers to this argument. First, as an historical fact we never have had any sustained period of prosperity when prices were going down. And since falling prices mean that employers will be paying their costs in more valuable dollars than they receive when their products are sold, we hardly can expect full production or full employment on a declining price level. At least not so long as we have a free economic system. Second, if government controls the issue of money and can direct it into the hands of those who need and will spend it—the benefits of an ever-increasing production will be passed on to the consumers of the Nation much more certainly than could be done by a declining general price level with its almost certain consequence of unemployment. Moreover, as Carl Strover contends in his book, *Monetary Progress:*

> "When the money supply is regulated so as to prevent any material decline of the domestic average wholesale commodity price no matter how much production be increased, then every improvement in production methods that lowers the domestic average wholesale commodity price, will result not only into a corresponding increase of the money supply, hence into a general growth of the

active demand for goods and services, but also into a proper direction of this demand, due to the fact that the price declines in those branches of production in which prices have been reduced, will be offset by price rises in those branches of production in which the supply shall happen to be least adequate."

The value to us of our food, our houses, our labor and our wealth of every sort changes but slowly and only over long periods of time. We gain the same nourishment from bread and the same shelter from a house in depression as in prosperity. Farm land is as fertile at one time as at another. Yet the prices of these things may be many times as high in a boom as in a depression. This is solely because the buying power of the dollar has changed, and, since all values are measured in dollars, we think the value of the real wealth has changed. We must be rid of this foolish illusion and we can only do so if we maintain a constant stable relationship between the flow of goods and the flow of money, or, to put it another way around, if we maintain a stable buying power in our dollar.

We have been laboring under another dangerous delusion. We have believed—or at least we have acted as if we believed—that if the demand in the markets of the nation was too small to take from the shelves all the goods that full employment could produce, then the thing to do was to reduce the supply of goods.

That delusion is a cause of cruelty, of suffering, of unnecessary poverty where there might be plenty.

For is it not clear to anyone who stops to think that if the supply be greater than the effective demand, the thing to do is to increase the demand by adding to the buying power of the people?

And that can be done far more easily and surely with far more Christian charity than the supply can be reduced—if only we follow sound monetary principles. For with those principles in effect we, as a people, would be free, without incurring debt, to require that our government create and place in circulation

—preferably through recipients of social security payments like old age pensions—an additional volume of purchasing power of sufficient size to bring the effective consumer demand to an equality with the supply of goods which our farms and factories were capable of producing.

But this is also the obvious way to counteract a collapse of prices. And will not an excess of supply over demand always cause prices to decline? So our two commandments are almost one and we cannot obey the first without obeying also the second, nor the second without observing the first.

So much for our first commandment. Now with regard to the second commandment there are not only economic but moral and ethical considerations and elementary principles of justice which justify and impel our obedience to it.

Every dollar that is put into circulation tends to reduce the buying power of every dollar already in existence. For the more dollars there are, in general, the less each will buy. Hence, whoever creates money takes for himself thereby a portion of the buying power that previously was present in the dollars possessed by all the rest of the people. Neither butchers, bakers, candle-stick-makers nor bankers, nor any other special group should be privileged to do such a thing.

Professor Soddy compares the private creation of money to forgery in this pungent paragraph:

> "This private issue and withdrawal of money—and the latter is more dangerous—has been the corrupting influence in every single department of our national life. But I would call your attention particularly to its effect on the law, which still pursues with vindictive penalties the humble coiner or issuer of a forged note and pooh-poohs with the rest the idea that there is any illegality in the banks having been issuing new money for two centuries at the average rate of over 1,000 pounds an hour day and night. The service I believe costs the nation many millions of pounds a year, but when not petty offences but thousands of millions of pounds are at issue it just pooh-poohs."

And indeed it is true that the creation of demand deposits by the banking system has precisely the same effect upon the money of a nation as does the illegal activity of a forger—except that it is a million times as big and important.

Book-entry or check-book money, like paper currency, is almost costless to create. But once created it becomes a demand upon all the goods and services of the nation which must be honored by all citizens.

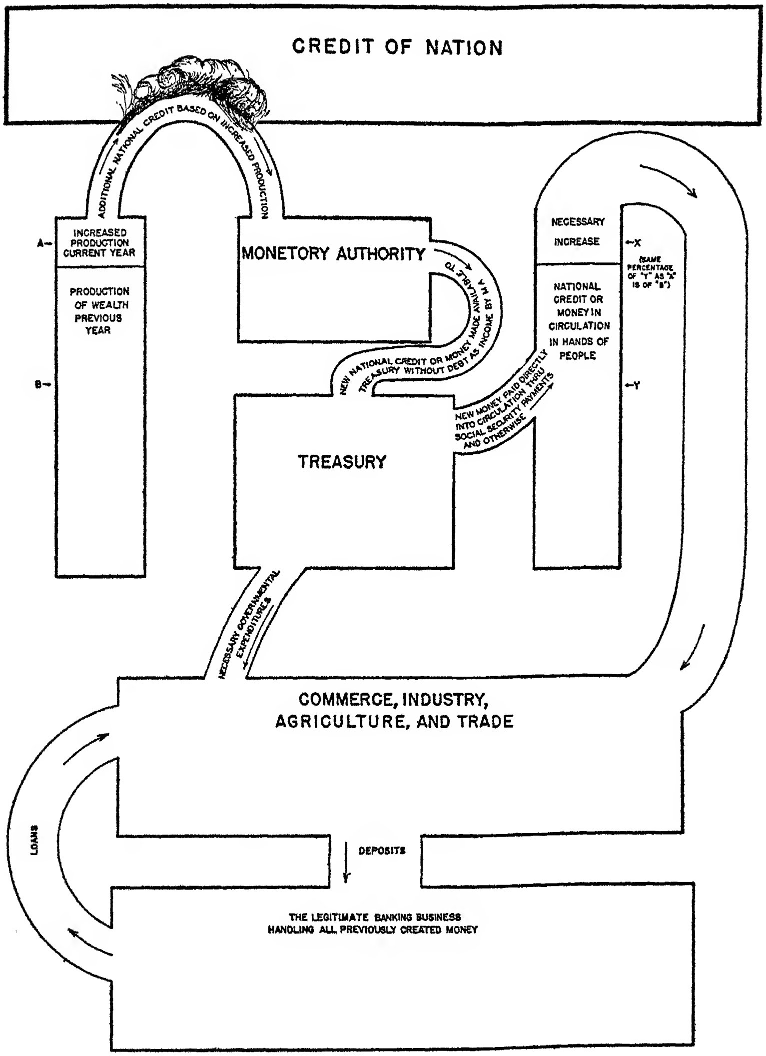
The possession of money gives to its possessor the power to require that other people either work for him or share with him the wealth they have produced or acquired. And, therefore, if any citizen exercises the privilege of creating money, he takes to himself, without giving anything in return, a power exactly equivalent to the power to tax, namely, the power to take from others a portion of what they have. Only the people as a whole through their government have a right to levy taxes on themselves. Therefore only the people as a whole have any right to create money or to enjoy the advantages that accrue from its creation.

Upon these two commandments there can be erected a scientific monetary system that will stand the test of time.

But if we are to follow them it becomes necessary that we do certain things. It becomes necessary that legislation be passed setting up, as a direct agent of the Congress, a non-political public body of outstanding citizens whose sole duty it shall be to "coin money and regulate the value thereof." Such an agent might be called a Monetary Authority. It might be a transformed Federal Reserve Board, if the central banks were made the property of the people. Such a monetary agent of Congress must be given the sole and exclusive right to create the money of the American people and it must be given a privileged position with regard to making recommendations to Congress as to taxes.

For without these powers it could not discharge its primary duty which is to provide the people of the United States with

SOURCE OF AMERICA'S MONEY UNDER SCIENTIFIC SYSTEM



a dollar "whose purchasing and debt-paying power will not change from one generation to another," as President Franklin D. Roosevelt once proposed.

The Monetary Authority would from time to time create new money in the form of credits on its books to the account of the United States Treasury. The Federal Reserve Board does that very thing right now every time it buys bonds from the Treasury. The only difference here between our scientific system and the present one would be that the people would need to incur no interest-bearing debt to their own monetary agent when the money their industry and productiveness had earned was placed to their credit.

But the Monetary Agent of the Congress and the people would not create money at will. Neither would it create it simply to pay the bills of the government. It would create it in accordance with the provisions of the law. And those provisions would require that as much new money be created as was necessary to prevent a fall in average commodity prices, and to secure continued full employment and full production—and no more. How much would that be?

Throughout American history there has taken place a constant increase in the capacity of our people in agriculture, business and industry to produce wealth. Throughout our history we have had an average annual increase of 4 percent in the production and business of the United States. Now if we are to prevent the buying power of our money from changing we must maintain a balance between goods produced for sale on the one hand, and money to buy them with on the other. Consequently, if the volume of goods increases 4 percent in a given year there should be a 4 percent increase in the volume of money in circulation. That increase should be brought about by governmental action and should be in the nature of *revenue* to the Treasury, without the necessity of either levying taxes or borrowing to bring it into existence. This is not a method whereby all the bills of government can be paid. Nor is it intended to be. It is a principle, however, which makes all the difference in the world between the possibility of making both

ends meet financially on the one hand and not being able to do it on the other. And it means that to the extent that it is necessary and justified that new money be put into circulation, the Nation as a whole will derive the benefit of it.

As has been shown in the last chapter, conditions of total war call for policies in many respects opposite to those that should govern our action in normal times. For in total war the supply of consumer goods produced for sale may actually be reduced and the total volume of such goods is limited by the demands of the war. At such a time it would be the duty of the monetary agent of Congress to come before the Congress and recommend such taxes as were necessary to withdraw from circulation an amount of money sufficient to prevent the buying power of the dollar from falling—which is another way of saying, to prevent an inflation in the price of goods from taking place.

But, during all the normal life of a nation, which is what this chapter is dealing with, there is required not a reduction but an increase in the amount of money in the hands of the consumers of the nation. Indeed the failure of the nations to provide for this has been the cause, in all probability, of as much suffering, conflict and distress as any one factor in recent years.

No less a body than the Chamber of Commerce of the City of London has officially taken that exact position. Its Secretary, Mr. A. de V. Leigh, is the author of a little pamphlet, written during the war, entitled *A Twentieth Century Economic System,* in which there appear the following very significant paragraphs:

> "This new purchasing media having been created by a stroke of the pen, the cost to the banks of its creation was negligible. Paper money and book-entry money, of which the vast bulk of the purchasing media of any modern State consists, are practically costless to create. It is evident that, at the moment of creation, such money cannot be the property of any private citizen as no service has been rendered for it, whereas when created it becomes a demand on goods and services which will be honored by all citizens.

> "In a progressive society there is annually an increase in the total amount of goods and services produced for consumption. If all the available labor, raw materials and capital equipment were fully employed, the annual increase would be far greater than it is. If a corresponding increase in the amount of purchasing media is not created and the same amount of money has therefore to do service for an increased number of transactions (assuming the velocity of circulation is the same), prices at which each unit can be sold must fall. If, therefore, it is desired to maintain a stable price level, there should be an annual increase in the total amount of purchasing media corresponding to the total annual increase in the amount of real wealth to be distributed. This issue of brand new purchasing media should, it is submitted, be spent into existence by the State, involving therefore no capital debt and no interest charge, instead of being lent into existence at interest by the private banking system, the State often being the borrower."

But more important even than Mr. Leigh's personal statement of his views is the *Report of the London Chamber of Commerce on General Principles of a Post-War Economy,* issued by the Chamber on May 12, 1942.

The report begins by stating that:

> "The London Chamber of Commerce has a direct membership of 9,000 firms and companies. Thirty-nine industrial and commercial associations, with an approximate membership of 50,000, are affiliated with it and are represented on its council. The chamber is therefore vitally concerned in the nature of the framework within which industry and commerce will be called upon to function after the war."

No radical source this, but a group of business men and industrialists in the largest and, on the whole, most conservative business community in the whole world.

And yet their report proceeds in this progressive vein:

"It is widely admitted that there was something wrong with our economic system. It was palpably absurd that nations should be desperately anxious to export more of their real wealth to other nations than they received in return. It was equally absurd that men in want of the necessaries of life should be denied the money with which to buy them because there was a superabundance of those necessaries and therefore their services were not required to make more. There has not, however, been the same readiness to recognize that there must be a serious error in our economic thinking in order to produce, in action, absurd results.

"It is also admitted that modern technique is capable of turning out goods in quantities far in excess of those actually produced during the 21 years between the wars. Since the opening of this century the harnessing of power throughout the world for the use of man has proceeded, decade by decade, with ever-increasing speed until the age-old problem of producing enough to go around has been largely solved.

"The limiting factor in the production of real wealth has, however, been the failure to distribute to would-be consumers enough money to buy the potential output, and goods are not for long produced if there are no buyers. Mass production implies mass consumption. We are driven, then, to investigate the mechanism for the provision of purchasing power. Whilst an amazing revolution has taken place in the science of production, no change, in any way commensurate, has taken place in the financial mechanism.

"The system of distributing purchasing power was evolved during an age of scarcity, i.e., an age in which there was not enough goods to go around. This system aimed, therefore, at insuring maximum production with minimum consumption. Maximum production was achieved by a complex system of cut-throat competition for cheapness, both within the Nation and internationally. The nation

which would induce its workers to accept the smallest reward for their labor in relation to their efficiency could, other things being equal (e.g., equipment, transport, volume of output), undersell the other nations and compel them to lower the wages of their workers under threat of loss of markets and unemployment. In this way a downward pull was exerted on the standard of living of the masses in the advanced nations. On the other hand, the volume of output made possible by power production was exerting an upward pull, as it was clearly necessary to increase the purchasing power of the masses in order to provide buyers, without which the goods would not, for long, be produced.

"To realize that tariffs, quotas, and exchange restrictions did mitigate, for the advanced nations, the devastating effects of a financial system which, both in its national and international aspects, was an anachronism, it is merely necessary to consider what would have happened had all the nations removed these barriers and accepted unrestricted free trade."

Now let us note and underline some of the things the London Chamber of Commerce is saying. *"The limiting factor in the production of real wealth has, however, been the failure to distribute to would-be consumers enough money to buy the potential output. . . ."* What else indeed has this book been saying?

And there is no qualification in the condemnation accorded the present financial system "the devastating effects of . . . which, both in its national and international aspects, was an anachronism."

And when this report comes to a discussion of "the fundamental problems which a satisfactory system must be designed to solve," it calls as its second point, for "the distribution internally of the purchasing power necessary to enable the nations to consume the whole of their own production: if this

were done they could equally consume the goods of other nations which they might exchange for their own production."

It is only to be hoped that American Chambers of Commerce will take the trouble to read what their British Allies have had to say.

But now there comes before us a person afflicted with the Great Deception (see Chapter I) and says: "All this is very well, but you are proposing that the government create money. And if it does so, that will be inflation." And so for his benefit there is one thing we must make clear once again before this chapter ends. Any nation can safely credit itself with new money income and pay it out into active circulation up to a certain easily determined total amount. That amount is the number of new dollars that can be put into circulation without increasing prices.

The danger of inflation comes about only when too much money is being put into circulation relative to the supply of goods. Therefore inflation and deflation menace a nation only when it has inadequate control over the creation and retirement of its circulating medium. A sound tax system can check inflation any time it threatens if that tax system is properly employed. And deflation—a really worse menace to the common people—can be prevented if, in accordance with a mandate laid down by the Congress, a governmental monetary authority exclusively responsible for the creation of money and credit in the Nation promptly places in circulation enough new purchasing power to check the decline in prices. We will not have inflation or deflation if these things are done. But with the power to destroy or to create money in the hands of the private banks, inflation and deflation will alternately plague the people. The thing that leads to dangerous inflation is not the creation of money by a government, but a continuous increase in public debt. For whenever an interest-bearing debt becomes so large that its servicing requires a major portion of tax revenues, so large that the people lose hope of ever being able to pay it off, then comes the temptation to reduce or to eliminate it by un-

sound, unjust, and artificial means. And then is when inflation may come in earnest, not as an accident or a consequence of other factors, but as a deliberate policy of a distressed people.

While war is going on there are other "costs" which concern the people far more than the financial ones or the soaring National Debt—the cost in human lives most of all, of course. Even the burden of a huge debt does not seem so important. But when the war is won all this will change overnight. And then it will be very important for the people to be able to see clearly how they are going to be able to carry on. And so the most important thing about war finance and tomorrow's money is that methods be known and put into effect whereby, without either repudiation or inflation, the people can escape a crushing load of mounting interest charges by earning their way out from under the debt that the war will leave behind it.

This is the hope this chapter seeks to bring. Under a scientific monetary system any people can and inevitably will earn their way out of debt if they increase their national production of real goods and services. For such a monetary system requires that as production of goods and services increases, the volume of money in the hands of the people must likewise be increased in order to prevent a fall in basic commodity prices and in order that distribution, exchange and consumption will keep pace with production. And a scientific monetary system also will require that only the whole people shall have a right either to levy taxes, or to create money, which is only another form of taxation.

And so we arrive at the final and truly hopeful point. A scientific money system requires that the rate of increase of money in circulation be the same as the rate of increase of production of goods for sale. Therefore as production is increased by the people's labor and intelligence, there must be entered as income on the books of the national Treasury a sufficient credit to increase the amount of money in circulation in the nation by the same percentage as production has increased or can readily be increased over the previous period. And this

additional revenue must not come either from taxes or from borrowing. It must not add one thin dime to the National Debt. It must consist of new money created without cost to anyone by authority of the People's Congress. For its validity and buying power have already been secured by the increased production of the things it will be used to buy. Thus can the American people earn their way out of debt under the sort of scientific monetary system to which this volume is dedicated.

This will be made clear by the chart opposite page 204 illustrating what would have happened in, for example, the year 1941 had a scientific monetary system been in effect in that year.

It can be shown that in that year there would have appeared on the books of the Treasury a credit from the Monetary Authority in the amount of $6,114,000,000. This would have made that amount of money available as income to people through their government. This book has purposely refrained from going into any discussion of how the new money earned into circulation by the people under a scientific monetary system should be spent. It would simply constitute a part of the funds in the Treasury subject to expenditure in accordance with Congressional appropriations. But it will be clear that it would be altogether possible for the entire $6,114,000,000 to be devoted to the paying off of that amount of the National Debt if it seemed to be wise policy to use it in that way.

The years 1940 and 1941 were of course unusual years. And in 1941 there took place an almost unprecedented increase in national wealth production. An average year would have shown about a 4 per cent increase instead of 14 per cent and would therefore have entitled the people to a credit on their Treasury books of something in excess of $1,700,000,000 on the basis of the volume of money in circulation in 1940.

In his speech to the members of Parliament heretofore quoted Professor Soddy set forth the same basic hope thus:

> "But there is this of hope to be said, that if the nation decides to follow the physical rather than the mystical principles of finance, and adopts the ideas of the new

economists, based on the capacity of the nation to produce, money being the distributing servant, not the master of industry and agriculture—and this should be easy because we shall have been forced by then by the war to adopt them—there will be such a buoyant feeling of prosperity and security in the air that the necessary heavy taxation will be lightly borne. But I implore you to abandon any lingering confusions, between the creation of wealth and its acquisition, due to the orthodox economists, and not to regard the former at least as a social crime.

"After the War we want the full stream of wealth turned into the channels of peacetime production for use and consumption, not the pipes drained to repay fictitious credits. Any idea that once the War is won we can sit back and let things slide, and leave the bankers to de-finance the peace, ought to be sternly frowned upon, by those still with the opportunity and leisure to think. For they will create a wilderness and call it Peace. My own view always has been that once the vicious spiral of inflation has been started it is more than the life of the patient is worth to try to reverse it, and at whatever value money finishes up at the end of the War, so in principle it should remain, though ameliorations as between the owners of dead debts and of revenue producing ones should be scientifically made."

And one of the greatest of American economists, John R. Commons, of Wisconsin University, wrote in his book, *Institutional Economics,* the same central principle when he said:

"The fundamental reason why the share theories of the national monetary income do not account for the alternating booms and depressions is because increasing the share of one class reduces the shares of other classes and does not change the total purchasing power of all classes, which, whether expended as savings or expended for con-

sumption, furnishes the same employment for labor, barring temporary difficulties of adjustment. In order to increase the purchasing power of labor the unemployed must be put to work by creation of new money, and not by transferring the existing purchasing power of taxpayers to laborers, as Malthus proposed, nor by borrowing money by government, which transfers investments but does not augment them. This new money cannot be created and issued by bankers, either in commercial, investment, or central banks, because in a period of depression the margins of profits have disappeared and there are no business borrowers willing to cooperate with bankers in creating the new money. In order to create the consumer demand, on which business depends for sales, the Government itself must create the new money and go completely over the head of the entire banking system by paying it out directly to the unemployed, either as relief or for construction of public works, as it does in times of war. Besides, this new money must also go to the farmers, the business establishments, and practically all enterprises, as well as to wage earners, for it is all of them together that make up the total of consumer demand."

Here is one of the explanations of our failure to deal successfully with depression in the years before the war, one of the answers to recurrent periods of prosperity followed by collapse. Here is the reason modern capitalist economies almost universally have been burdened with staggering debt and afflicted with the tragic paradox of poverty in the midst of plenty.

We have blunderingly assumed that the reservoir of credit in the Nation was a private, not a public, one and we have permitted private financial interests to capitalize in terms of new fiat credit the growth of population and productive capacity of this great Nation.

We have attempted to borrow into circulation enough de-

mand bank deposits to bring recovery, but we were unable to push the National Debt up fast enough to make this policy effective.

We have left out of account this basic factor in our calculations. There takes place, year by year, a net increase in the productive capacity, population and wealth of America. In the absence of a practical recognition of this factor of national growth, no amount of investment, however large, can ever bring about balance between our power to produce and our power to consume. For investments, while adding temporarily to consuming power through wage payments and the like, also increase our power to produce and in the long run leave us more out of balance than we were before.

The American people have children and increase the population, the American people improve their technique of production in agriculture and industry, the American people invent new means of transportation. The whole people earn the right to have their Government bring into circulation from time to time an additional amount of interest-free money to compensate for this growth and to keep the dollar from devouring, in inflated value, the wealth and hope that this growth made possible.

If the dollar is to be the handmaid of industry and not a keeper of its cell, then the volume of money must be increased scientifically year by year to match the growth of production.

On this rests a great hope.

The hope that we shall be able to avoid inflation, deflation and repudiation and to earn our way out of debt after we have won the war.

CONCLUSION

THE ECONOMICS OF A FREE WORLD

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THE WAR that broke upon the world in September, 1939 was not just a World War. It was not simply a clash between one group of nations and another group. It was much more than that. It was a deep world-wide struggle between two fundamentally different systems of government and philosophies of human life. The real victory will be won not only by military might but also by enlisting the profound allegiance of the peoples of the world to one system or the other. It is a great epic in the age old struggle for freedom; a searching after an economic security which some peoples lost in the industrial revolution and which other people never had; and it is an attempt to come of age on the part of some peoples whose national life has heretofore been simple and, from an industrial standpoint, backward. This is what people mean when they say this war is in part, at least, a world revolution.

Not everyone appears to understand this—not even all the leaders of the Nations. But the Vice-President of the United States Henry A. Wallace as he spoke on the evening of May 8, 1942 to the Free World Association in New York put it in words which will live through the years. Here are three paragraphs from that address:

> "As we begin the final stages of this fight to the death between the free world and the slave world it is worthwhile to refresh our minds about the march of freedom for the common man. The idea of freedom—the freedom that we in the United States know and love so well—is derived from

the Bible, with its extraordinary emphasis on the dignity of the individual. Democracy is the only true political expression of Christianity. . . .

"The people, in their millennial and revolutionary march toward manifesting here on earth the dignity that is in every human soul, hold as their credo the 'four freedoms' enunciated by President Roosevelt in his message to Congress on January 6, 1941. These 'four freedoms' are the very core of the revolution for which the United Nations have taken their stand. We who live in the United States may think there is nothing very revolutionary about freedom of religion, freedom of expression, and freedom from the fear of secret police. But when we begin to think about the significance of freedom from want for the average man, then we know that the revolution of the past 150 years has not been completed, either here in the United States or in any other nation in the world. We know that this revolution cannot stop until freedom from want has actually been attained. . . .

"Yes, and when the time of peace comes, the citizen will again have a duty, the supreme duty of sacrificing the lesser interest for the greater interest of the general welfare. Those who write the peace must think of the whole world. There can be no privileged peoples. We ourselves in the United States are no more a master race than the Nazis. And we cannot perpetuate economic warfare without planting the seeds of military warfare. We must use our power at the peace table to build an economic peace that is just, charitable, and enduring."

The free world Mr. Wallace speaks of is stronger than the slave world. For the difference between democracy and dictatorship is this: Democracy is like a vertebrate animal with its basic body structure within and its vulnerable flesh without. It can readily be wounded, but the wound will heal. Flesh wounds it can endure, and its basic structure can remain untouched. Dictatorship is like an invertebrate with an exo-

skeleton. It appears formidable, unassailable, proof against attack. And indeed it is not easy to break the shell. But once the shell is broken, and the inner flesh left unprotected, life departs, and there remains nothing but unorganized and defenseless protoplasm.

This war is as new a thing as it is terrible.

Never before has there been total war.

Never before has there been conversion of the entire life of nations to war.

Never before have women and children in their homes been at times in even greater danger than soldiers in the field.

There has never been a war like this before.

And there probably can never be another one like it again.

Such a war cannot but be a part of a profound transformation —for good or ill—of the lives of men around the world.

The forces making for change and transformation—call it revolution, if you will—undoubtedly have derived a major part of their power from the bafflement and confusion that have entered the minds of so many people in recent years.

Why should men be unemployed when they themselves need the things they can and want to produce?

Why should people be hungry while farmers lose their land because they cannot sell their crops?

Why, indeed, should there be depression and unemployment when producers want to work and consumers are in dire need of the things the producers want to and could make. Why should a thing called "deflation" and "scarcity of money" stand in the way of the fulfilling of these great fundamental human needs?

These are old and threadbare questions—more or less forgotten while war engulfs the world—but they made Hitler possible and they lie at the root of the unrest that rocks the world. These are the questions that led the people of some nations to rest their fate in the power of single men and cliques of men—because these men said they could straighten it all out and make it simple. And the danger to the whole of human

civilization and especially to the spirits and souls of men is that they will choose utter dependence on the schemes of self-styled supermen instead of vowing in their hearts to work out for themselves the answers to these questions.

Ever since God in his wisdom and his power first breathed into a living being the soul of a man and shared with his creatures some of the characteristics of divinity, there have been three things that men have sought after. The first of these has been food, warmth and shelter, the basic necessities of life for oneself and one's children. The second has been safety or security—freedom from fear, if you will. And the third has been liberty of the spirit—the right to call one's soul his own. And as mankind has progressed from age to age men have tended to place more and more value on the third of these things.

With the coming of the Industrial Revolution—machines, steam, electricity, power—the direct connection between men's labor and the supplying of their physical needs was broken. And during the past century and a half the division of labor into a multitude of specialized tasks has practically destroyed the relationship which once existed between the daily work of people and the production of their own food, clothing, and shelter.

Thus unemployment, that strange symptom of economic malady, appeared and threatened to become chronic in peacetime industrial societies. And thus too the link or bridge between production and consumption—money—has become of greater and greater importance to the millions of people who inhabit this strange little world.

Not for long will people tolerate a situation where they are told they cannot work because there is no "demand" for their labor and where at the same time they must return home to find their families in want. For they will say: "But there is a demand for us to work. There is a demand that we produce food and clothing and shelter. For our own families in the most vital and human meaning of the word 'demand' and need these things. We find that demand in our own households."

And then they will be told that while all that is true, nevertheless more than enough has already been produced. To which they will reply: "Then why cannot we consume it and satisfy our families' needs?" "But," the wise ones will say, "you have no money." And to that with simple humanity the reply will be: "Then give us the money and we will consume the surplus goods, and then there will be jobs for us and work for us to do." And to this the answer will be: "But that would deprive you of your independence and make you objects of governmental charity. It is therefore better that you remain unemployed."

Not for long will men endure the utter foolishness of such answers to their questions.

And so there have arisen dictators—men with a thirst for power who have told the people they would trade them jobs for the right to rule over them. And whole patterns of thought and economic theory have been built upon the idea that by means of such dictatorship unemployment could be overcome and sanity restored to economic relationships. Fascist and Communist and Nazi states have been erected. And thereby men have given up the third great objective of their search—liberty of the spirit—in order that, as they have thought, they might gain the first one—food and the necessities of life for themselves and their families.

But within the past decade particularly it has been borne in upon thoughtful men and women that, whatever the bread and meat advantages from governmental control over the economic lives of the people, those advantages must apparently always be purchased at the price of liberty. And they have come to believe that is too heavy a price to pay. They are determined, therefore, to find a way in which the tragic paradox of unemployment can be overcome without the loss of political or economic freedom. They are resolved to discover a democratic way out.

Is it too much to expect that this can be done? No. For if it were too much to expect, then most of human history consisting as it does of an instinctive struggle for both bread and liberty becomes a senseless mockery.

In an earlier book entitled *The Morale of Democracy* the author said:

> "The world waits for one great people somewhere in the world to give to all mankind a living proof and demonstration that they can, without loss of liberty and without resort to governmental compulsion, solve the economic problems of this power age, end poverty in the midst of plenty, and make the machine the servant of man and not his master."

Upon some people doing that thing hangs the hope of Mankind in the Post-War World.

Neither men nor nations can always judge the final destination of a road by the direction in which it seems to be heading. There has developed in America a profound conflict of political forces. On the one hand are those who seek a return to conditions and practices of the 1920's. They forget that the collapse of 1929 was the inevitable result of the events of the years that went immediately before. They are the conservatives who say that if you cannot have employment for all the people without a balanced budget, then all the people cannot be employed. And on the other hand is another group who tell us—and with truth—that we cannot return to the world of 1926 even if our people desired to do so. They say we must provide for full employment after the war is won. And with that none will, in principle, disagree. But all through the period of the New Deal there has sounded louder and louder a note that has become almost a refrain, if not a requiem.

That note is this: That the National Debt does not matter, that policies can be pursued indefinitely even though they require a continuous practice of deficit financing. It is emphasized that we owe the debt to ourselves, to our own people, and that, therefore, what is paid in interest is income to some citizen. And finally it has been asserted that it would even be desirable to have a larger debt than we have yet acquired, since it would

offer a safe source of investment for the savings of the people and the vast accumulations of the insurance companies.

And as official Washington has brought forth proposals for meeting the post-war economic problem it has been notable that, whereas almost every such proposal involves a considerable outlay of public funds, *little if anything is said about what the source of those funds will be.*

But that question must be answered. And it is not an answer to say that we will still further increase the National Debt. True the debt is owed internally, but whereas all the people must pay it, it is owed, in major portion, to a comparative few. And, therefore, the payment of interest and principal upon the debt will largely add to the surplus funds of those who in recent years have had more money than they could or would invest promptly in productive enterprises. But the servicing of the debt will also require the payment of billions upon billions of dollars in taxes by every family, rich or poor, in the whole land. So that the larger the interest-bearing National Debt the greater will be the problem of securing a good enough distribution of buying power among all the people to make full production and full employment possible.

There may be some argument for the position that it is socially more desirable to have insurance company funds invested in government bonds instead of having them own huge blocks of industrial securities. And it may be better for the nation as a whole to have college boards of trustees derive the income for their institutions from interest upon the National Debt rather than from dividends of corporations in whose financial welfare the college may take too lively an interest. But surely there are deeper considerations than these. Suppose the National Debt became so large that almost all the savings of the whole nation were invested in it. Then, correspondingly, it would be government and not free industry that would be responsible for putting those savings to work. They would have to be put to work in such a way as to be productive of real income, not alone in the form of worthwhile services, but of commodities that could be sold and cash income derived from their sale. Other-

wise the savings of the nation would be dead savings. So the road of an ever-increasing National Debt is a road that leads to an economy more and more centralized in the hands of government. And those who desire to preserve a free economy and who believe that political freedom depends in large part upon a substantial degree of economic freedom will do well to read, mark, and inwardly digest the things this book has had to say.

There is a limit to the proportion of its income that any Nation can afford to pay in interest to its bondholders. Surely there is a limit to the tax burden that the American people will willingly bear in peace time. And there is every likelihood that unless we mend our ways the annual interest charges on the National Debt at war's end will be $5,000,000,000, $6,000,000,000 or even $7,000,000,000—more than the total tax revenues of the Federal Government in any peacetime year in our history.

Finally the National Debt, its size and its increase, is important because nine out of ten of the American people believe it is important. The problem of the National Debt makes all the difference on earth to the future of the United States simply because the people believe it makes a difference. And in a democracy that is all that matters. No political party or group can expect to hold the support of the American electorate unless it can furnish that electorate some answer other than oratory to the problem of the public debt.

For the people are fundamentally right and the Washington philosophers are fundamentally wrong about this question. Men and women can and will endure great hardship and great burdens if they can see hope ahead. The accumulation of this huge National Debt as a result of this war for human liberty is not going to bring disaster to America, provided one thing is done. That one thing is this. The American people must, when the war has been won, be shown a way, a reasonable, understandable way in which they can earn their way out from under that debt. That will be enough. But if instead they are told, "We

must go on with more deficit financing," then indeed hopelessness may come and with it danger to our institutions.

And yet—and this sentence is as important in itself as the preceding several paragraphs—there must be jobs for returning soldiers and there must be full employment and opportunity for abundant consumption after this war for all—for have not the people seen that our Nation is capable of a production of $120,000,000,000 of wealth a year? And will they not ask with unanswerable logic why if this could be done to win the war it cannot also be done to win and keep the peace?

The problem of financing the war is serious enough. It may be done the wrong way. But the war will go on because the people know that it must—until victory. But the problem of rebuilding our world after the war, that will not and cannot go on unless we work out a way of providing the money and the effective consumer demand necessary to sustain full production and full employment. And if we would protect our liberties that way must be a something other than constant "deficit financing" by government "borrowing" of privately created credit and a consequent increase in the National Debt-that-ought-not-to-be-debt.

It is little wonder, then, that there has appeared and is gaining ground a school of thought which holds that there must be a better, sounder, more solid basis for full employment and an economy of abundance in America than we have yet laid down. This school of thought views the shelf of public works as a second, not a first, line of economic defense against peacetime unemployment. It holds that full employment, abundant production and equally abundant consumption can be achieved without governmental economic dictatorship, or governmental direction and control of our economy. This school of thought believes *the job of government must be the motivation of full employment and production not by increasing governmental power but by consistently, effectually and regularly passing that power on into the hands of the 130,000,000 people of the nation.* It places therefore in the first line of economic defense such

measures as will make certain that American consumers will have a constant buying power large enough in total volume to keep our machinery of production going at a high enough level to provide full employment. Such measures include: (1) creation by the nation itself of such additional money or national credit as is required by expanding production, thus ending the present practice of borrowing the nation's own credit at interest from private banks; (2) amendment of the Social Security Act so as to make it a dynamic force channelling otherwise idle buying power into the active stream of consumer demand instead of a static individual insurance program; (3) the fearless use of taxation as a means of penalizing the arch-crime of a free economic order, namely, holding the medium of exchange out of use; (4) measures which will assure the farmer that the abundance of his production will not be the measure of his woe, but rather that he will find a full home market among those who, to put it simply and undramatically, need more food; and finally (5) use of publicly owned "yardsticks" to break the grip of monopoly in fields of "natural monopoly" such as electric power, and the vigorous enforcement of anti-trust laws to accomplish the same purpose in fields where competition is possible as the method of protecting the public interest and assuring abundant production and fair prices to consumers.

And there is always the hope that the cooperative movement among consumers, farmers and other groups will—without government favors or subsidy of any kind—attain sufficient economic strength to exert the sort of salutary influence on our economic life that it has exerted in Scandinavia.

This school of thought believes that if these things are done we will develop a clear distinction between the proper fields of governmental action in a democracy and the phases of economic life in which government will not enter. To such a school of thought the writer of this book belongs.

The contribution of this book to the future peace of the world cannot perhaps be very great. But there are two thoughts, in line with its theme, which can be given.

We suffer today from a strange idea that the more of the precious products of its mines, farms and factories a nation like the United States can ship away, the better off it is and that the more such products it brings in, the worse off it is. But a scientific monetary system such as this book has described would guarantee to its people as a whole the constant ability to consume as much as they could produce. And this guarantee would remove the fear of imports which will always plague a nation living under the delusion that an abundance of goods causes unemployment and that that unemployment is to be cured by reducing the supply instead of increasing the effective demand.

The price of enduring peace is first of all the removal from the paths of international trade of the barrier of uncollectable debt. That barrier can only be removed if all trade is founded upon the principle of an equal exchange of goods between the peoples of the world. It can never be removed so long as artificial and utterly impossible financial paradoxes are allowed to cloud and befuddle the minds of men and nations.

The second thought is this: All efforts at the stabilization of the relative value of currencies between nations depend upon the stabilization of the value and buying power of the currency of each nation within its own borders. There is nothing whatever to be gained from trying to keep the dollar in a constant ratio with the pound at, say, 5:1, if the domestic buying power of the pound in England is changing from month to month. All that will accomplish is to make the dollar more unstable than it was before. Only when the foreign seller can be sure, when he is paid in dollars, that he is receiving money that will constantly, from year to year, buy the same quantity of American goods will we have a rock upon which to build a trade that will make for lasting peace. And only when the domestic buying power of their money is controlled and protected in the public interest will the nations be protected once and for all against the trafficking in the currencies of the world which has made the term "international banker" an epithet of reproach.

A nation whose people are blessed with the opportunity of

consuming in accordance with the supply of goods will be a force for peace because it will not be afraid to import and to permit others to pay in goods for what they have received.

And a nation whose own money is kept in a constant and dependable relationship to its production of goods will be a force for peace because such a nation, and such a nation alone, can contribute effectively to the stabilization of the currencies of other lands.

In his foreboding book, *The Decline of the West,* Oswald Spengler said that no nation or people has become great in all history unless it was inspired by a fundamentally religious ideal and moved by a dynamic Faith. Nor has any nation or people remained great after it lost that Faith.

So it will be with us.

Let us most earnestly pray therefore, that future historians will record that out of the fire of total war America emerged with a Faith stronger than any she had known before. Gethsemane led Jesus of Nazareth to Calvary. But it did not lead him there without a Hope far more profound and certain than any human mind has ever known. So may it be with us. May we learn from the very suffering of war that there is a shape and pattern to the laws of God, that the rise of man from the marshes and the ice caves, from ignorance and spiritual isolation, is not a mockery. May we learn that we are not doomed to self-destruction, nor to a choice between poverty and want on the one hand and spiritual slavery on the other. May we gain a Faith that a new world can be built, that it can be a free world and also a world of reason. And above all, may we gain the deep conviction that whatever problems are presented to men of devotion and good-will such men, with the help of God, can solve.

APPENDICES

APPENDIX I.

Purchasing Power of the Dollar Expressed in Terms of Wholesale Prices by Months, 1890 to 1940

[1926 = $1]

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year
1890	1.828	1.825	1.818	1.815	1.799	1.805	1.795	1.730	1.712	1.721	1.751	1.767	1.779
1891	1.783	1.767	1.730	1.718	1.739	1.792	1.802	1.805	1.825	1.832	1 842	1.859	1.792
1892	1.898	1.908	1.938	1.980	1.969	1.972	1.927	1.908	1.905	1.887	1.852	1.818	1.916
1893	1.767	1.748	1.779	1.799	1.818	1.880	1.927	1.988	1.923	1.890	1.953	1.984	1.873
1894	2.016	2.058	2.105	2.114	2.128	2.119	2.105	2.070	2.016	2.075	2.088	2.105	2.088
1895	2.119	2.132	2.119	2.016	1.996	1.984	2.000	2.020	2.041	2.024	2.041	2.070	2.049
1896	2.083	2.105	2.132	2.141	2.174	2.198	2.217	2.217	2.208	2.146	2.079	2.101	2.151
1897	2.141	2.160	2.160	2.183	2.198	2.222	2.208	2.123	2.062	2.079	2.088	2.079	2.146
1898	2.083	2.058	2.049	2.045	1.931	2.070	2.083	2.083	2.092	2.096	2.083	2.070	2.062
1899	2.045	2.012	2.008	1 976	1.972	1.949	1.927	1.887	1.832	1.805	1.792	1.764	1.916
1900	1.754	1.745	1.745	1.748	1.783	1.802	1.792	1.795	1.783	1.808	1.805	1.815	1.783
1901	1.812	1.828	1.835	1.838	1.848	1.848	1.835	1.805	1.783	1.783	1.767	1.733	1.808
1902	1.761	1.764	1.770	1.742	1.715	1.701	1.692	1.724	1.704	1.582	1.647	1.626	1.698
1903	1.597	1.613	1.658	1.667	1.695	1.695	1.706	1.701	1.681	1.704	1.715	1.718	1.678
1904	1.675	1.647	1.653	1.686	1.709	1.712	1.709	1.689	1.672	1.669	1.647	1.637	1.675
1905	1.650	1.639	1.658	1.656	1.686	1.686	1.684	1.664	1.678	1.669	1.664	1.639	1.664
1906	1.637	1.645	1.650	1.637	1.631	1.631	1.675	1.634	1.621	1.592	1.572	1.555	1.618
1907	1.563	1.541	1.555	1.550	1.524	1.513	1.513	1.513	1.504	1.495	1 548	1.582	1.534
1908	1.605	1.629	1.618	1.608	1.608	1.597	1.585	1.587	1.580	1.575	1.560	1.543	1.590
1909	1.548	1.541	1.534	1.511	1.486	1.475	1.475	1.466	1.451	1.425	1.410	1.397	1.479
1910	1.401	1.403	1.372	1.366	1.389	1.408	1.408	1.412	1.431	1.473	1.506	1.502	1.420
1911	1.513	1.553	1.546	1.580	1.587	1.587	1.565	1.527	1.513	1.511	1.517	1.531	1.541
1912	1.515	1.499	1.481	1.435	1.429	1.449	1.451	1.435	1.418	1.412	1.425	1.427	1.447
1913	1.422	1.433	1.431	1.435	1.451	1.449	1.439	1.435	1.416	1.420	1.427	1.447	1.433
1914	1.458	1.464	.1.471	1.479	1.484	1.484	1.486	1.437	1.425	1.471	1.481	1.486	1.468

Purchasing Power of the Dollar Expressed in Terms of Wholesale Prices, by Months, 1890 to 1940—Continued

[1926 = $1]

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year
1915	1.468	1.458	1.466	1.456	1.449	1.464	1.443	1.458	1.464	1.425	1.395	1.351	1.439
1916	1.229	1.274	1.244	1.224	1.212	1.206	1.199	1.175	1.151	1.098	1.027	1.008	1.170
1917	.979	.957	.929	.876	.829	.820	.813	.801	.810	.818	.814	.814	.851
1918	.800	.815	.791	.779	.781	.775	.758	.745	.727	.734	.734	.734	.762
1919	.744	.770	.762	.752	.739	.737	.709	.693	.709	.706	.692	.664	.722
1920	.634	.637	.631	.604	.598	.601	.603	.620	.644	.693	.750	.829	.648
1921	.877	.953	.977	1.011	1.040	1.071	1.071	1.070	1.071	1.063	1.062	1.076	1.025
1922	1.094	1.076	1.078	1.073	1.041	1.038	1.006	1.014	1.007	1.004	.995	.993	1.034
1923	.980	.968	.957	.962	.981	.997	1.016	1.022	1.003	1.006	1.016	1.019	.994
1924	1.004	1.003	1.015	1.028	1.043	1.054	1.046	1.031	1.030	1.018	1.009	.985	1.019
1925	.972	.962	.960	.981	.984	.971	.959	.962	.967	.965	.957	.967	.966
1926	.969	.980	.994	.997	.995	.996	1.005	1.009	1.003	1.006	1.016	1.021	1.000
1927	1.036	1.044	1.056	1.063	1.062	1.063	1.060	1.050	1.038	1.035	1.038	1.037	1.048
1928	1.037	1.044	1.047	1.035	1.026	1.034	1.027	1.025	1.014	1.034	1.044	1.044	1.034
1929	1.043	1.048	1.041	1.047	1.056	1.050	1.036	1.038	1.041	1.052	1.070	1.072	1.049
1930	1.081	1.094	1.109	1.111	1.126	1.152	1.185	1.186	1.185	1.205	1.230	1.256	1.157
1931	1.279	1.302	1.316	1.337	1.366	1.387	1.389	1.387	1.404	1.422	1.425	1.458	1.370
1932	1.486	1.508	1.515	1.527	1.553	1.565	1.550	1.534	1.531	1.553	1.565	1.597	1.543
1933	1.639	1.672	1.661	1.656	1.595	1.538	1.451	1.439	1 412	1.404	1.406	1.412	1.517
1934	1.385	1.359	1.357	1.364	1.357	1.340	1.337	1.309	1.289	1.307	1.307	1.300	1.335
1935	1.269	1.258	1.259	1.248	1.247	1.253	1.259	1.242	1.239	1.242	1.241	1.236	1.250
1936	1.241	1.241	1.256	1.255	1.272	1.263	1.242	1.225	1.225	1.227	1.214	1.188	1.238
1937	1.164	1.159	1.139	1.136	1.144	1.147	1.138	1.143	1.144	1.171	1.200	1.224	1.159
1938	1.236	1.253	1.255	1.271	1.280	1.277	1.269	1.280	1.277	1.289	1.290	1.299	1.272
1939	1.300	1.300	1.304	1.312	1.312	1.323	1.326	1.333	1.264	1.259	1.263	1.263	1.297
1940	1.259	1.271	1.276	1.272	1.276	1.290	1.287	1.292	1.282	1.271	1.256	1.250	1.272
1941	1.238	1.241	1.227	1.202	1.178	1.148	1.126	1.107	1.089	1.082	.....	.....	.....

Index Numbers of Wholesale Prices of All Commodities, by Months, 1890 to 1940—Continued

[1926 = 100]

Year	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year
1890	54.7	54.8	55.0	55.1	55.6	55.4	55.7	57.8	58.4	58.1	57.1	56.6	56.2
1891	56.1	56.6	57.8	58.2	57.5	55.8	55.5	55 4	54.8	54.6	54.3	53.8	55.8
1892	52.7	52.4	51.6	50.5	50.8	50.7	51.9	52.4	52.5	53.0	54.0	55.0	52.2
1893	56.6	57.2	56.2	55.6	55.0	53.2	51.9	50.3	52.0	52.9	51.2	50.4	53.4
1894	49.6	48.6	47.5	47.3	47.0	47.2	47.5	48.3	49.6	48.2	47.9	47.5	47.9
1895	47.2	46.9	47.2	49.6	50.1	50.4	50.0	49.5	49.0	49.4	49.0	48.3	48.8
1896	48.0	47.5	46.9	46.7	46.0	45.5	45.1	45.1	45.3	46.6	48.1	47.6	46.5
1897	46.7	46.3	46.3	45.8	45.5	45.0	45.3	47.1	48.5	48.1	47.9	48.1	46.6
1898	48.0	48.6	48.8	48.9	51.8	48.3	48.0	48.0	47.8	47.7	48.0	48.3	48.5
1899	48.9	49.7	49.8	50.6	50.7	51.3	51.9	53.0	54.6	55.4	55.8	56.7	52.2
1900	57.0	57.3	57.3	57.2	56.1	55.5	55.8	55.7	56.1	55.3	55.4	55.1	56.1
1901	55.2	54.7	54.5	54.4	54.1	54.1	54.5	55.4	56.1	56.1	56.6	57.7	55.3
1902	56.8	56.7	56.5	57.4	58.3	58.8	59.1	58.0	58.7	63.2	60.7	61.5	58.9
1903	62.6	62.0	60.3	60.0	59.0	59.0	58.6	58.8	59.5	58.7	58 3	58.2	59.6
1904	59.7	60.7	60.5	59.3	58.5	58.4	58.5	59.2	59.8	59.9	60.7	61 1	59.7
1905	60.6	61.0	60.3	60.4	59.3	59.3	59.4	60.1	59.6	59.9	60.1	61.0	60.1
1906	61.1	60.8	60.6	61.1	61.3	61.3	59.7	61.2	61.7	62.8	63.6	64.3	61.8
1907	64.0	64.9	64.3	64.5	65.6	66.1	66.1	66.1	66.5	66.9	64.6	63.2	65.2
1908	62.3	61.4	61.8	62.2	62.2	62.6	63.1	63.0	63.3	63.5	64.1	64.8	62.9
1909	64.6	64.9	65.2	66.2	67.3	67.8	67.9	68.2	68.9	70.2	70.9	71.6	67.6
1910	71.4	71.3	72.9	73.2	72.0	71.0	71.0	70.8	69.9	67.9	66.4	66.6	70.4
1911	66.1	64.4	64.7	63.3	63.0	63 0	63.9	65.5	66.1	66.2	65.9	65.3	64.9
1912	66.0	66.7	67.5	69.7	70.0	69.0	68.9	69.7	70.5	70.8	70.2	70.1	69.1
1913	70.3	69.8	69.9	69.7	68.9	69.0	69.5	69.7	70.6	70.4	70.1	69.1	69.8
1914	68.6	68.3	68.0	67.6	67.4	67.4	67.3	69.6	70.2	68.0	67.5	67.3	68.1
1915	68.1	68.6	68.2	68.7	69.0	68.3	69.3	68.6	68.3	70.2	71.7	74.0	69.5
1916	77.0	78.5	80.4	81.7	82.5	82.9	83.4	85.1	86.9	91.1	97.4	99.2	85.5

Index Numbers of Wholesale prices of All Commodities, by Months, 1890 to 1940—Continued

[1926 = 100]

Year	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year
1917	102.1	104.5	107.7	114.1	120.7	122.0	123.0	124.8	123.8	122.2	122.8	122.9	117.5
1918	125.0	122.7	126.4	128.3	128.1	129.0	132.0	134.3	137.5	136.3	136.3	136.3	131.3
1919	134.4	129.8	131.3	133.0	135.3	135.6	141.1	144.3	141.1	141.6	150.5	150.5	138.6
1920	157.7	157.1	158.6	165.5	167.2	166.5	165.8	161.4	155.2	144.2	133.4	120.7	154.4
1921	114.0	104.9	102.4	98.9	96.2	93.4	93.4	93.5	93.4	94.1	94.2	92.9	97.6
1922	91.4	92.9	92.8	93.2	96.1	96.3	99.4	98.6	99.3	99.6	100.5	100.7	96.7
1923	102.0	103.3	104.5	103.9	101.9	100.3	98.4	97.8	99.7	99.4	98.4	981.1	100.6
1924	99.6	99.7	98.5	97.3	95.9	94.9	95.6	97.0	97.1	98.2	99.1	101.5	98.1
1925	102.9	104.0	104.2	101.9	101.6	103.0	104.3	103.9	103.4	103.6	104.5	103.4	103.5
1926	103.2	102.0	100.6	100.3	100.5	100.4	99.5	99.1	99.7	99.4	98.4	97.9	100.0
1927	96.5	95.8	94.7	94.1	94.2	94.1	94.3	95.2	96.3	96.6	96.3	96.4	95.4
1928	96.4	95.8	95.5	96.6	97.5	96.7	97.4	97.6	98.6	96.7	95.8	95.8	96.7
1929	95.9	95.4	96.1	95.5	94.7	95.2	96.5	96.3	96.1	95.1	93.5	93.3	95.3
1930	92.5	91.4	90.2	90.0	88.8	86.8	84.4	84.3	84.4	83.0	81.3	79.6	86.4
1931	78.2	76.8	76.0	74.8	73.2	72.1	72.0	72.1	71.2	70.3	70.2	68.6	73.0
1932	67.3	66.3	66.0	65.5	64.4	63.9	64.5	65.2	65.3	64.4	63.9	62.6	64.8
1933	61.0	59.8	60.2	60.4	62.7	65.0	68.9	69.5	70.8	71.2	71.1	70.8	65.9
1934	72.2	73.6	73.7	73.3	73.7	74.6	74.8	76.4	77.6	76.5	76.5	76.9	74.9
1935	78.8	79.5	79.4	80.1	80.2	79.8	79.4	80.5	80.7	80.5	80.6	80.9	80.0
1936	80.6	80.6	79.6	79.7	78.6	79.2	80.5	81.6	81.5	81.5	82.4	84.2	80.8
1937	85.9	86.3	87.8	88.0	87.4	87.2	87.9	87.5	87.4	85.4	83.3	81.7	86.3
1938	80.9	79.8	79.7	78.7	78.1	78.3	78.8	78.1	78.3	77.6	77.5	77.0	78.6
1939	76.9	76.9	76.7	76.2	76.2	75.6	75.4	75.0	79.1	79.4	79.2	79.2	77.1
1940	79.4	78.7	78.4	78.6	78.4	77.5	77.7	77.4	78.0	78.7	79.6	80.0	78.6
1941	80.0	80.6	81.5	83.2	84.9	87.1	88.8	90.3	91.8	92.4	92.5	.....	.....

APPENDIX II.

A BILL FOR MAKING THE TWELVE FEDERAL RESERVE BANKS THE PROPERTY OF THE AMERICAN PEOPLE

Be it enacted., That (a) the Secretary of the Treasury of the United States is hereby authorized and directed forthwith to purchase the capital stock of the 12 Federal Reserve banks, and branches and agencies thereof, and to pay to the owners thereof the par value of such stock at the date of purchase.

(b) All member banks of the Federal Reserve System are hereby required and directed to deliver forthwith to the Treasurer of the United States, by the execution and delivery of such documents as may be prescribed by the Secretary of the Treasury, all the stock of said Federal Reserve banks owned or controlled by them, together with all claims of any kind or nature in and to the capital assets of the said Federal Reserve banks, it being the intention of this act to vest in the Government of the United States the absolute, complete, and unconditional ownership of the said Federal Reserve banks.

APPENDIX III.

A BILL

To provide funds for the prosecution of the war and to relieve the American people of unnecessary interest burden.

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled, that the Secretary of the Treasury is hereby authorized and directed to issue non-interest-bearing certificates of indebtedness of the United States and the Board of Governors of the Federal Reserve System shall purchase for the Federal Reserve banks such certificates under the following terms and conditions:

(1) The amount of such certificates issued in each fiscal year shall be equal to the difference between total disbursements of the United States and the sum of (a) tax revenues and (b) the proceeds derived from sales of War Bonds to individuals.

(2) The Federal Reserve banks shall make payment for such certificates in the same manner as they have paid for interest-bearing obligations of the United States, namely, by entering upon their books reserve-bank credit in favor of the United States in amounts equal to the face value of the certificates purchased.

(3) Such certificates shall be evidence of a non-interest-bearing debt of the United States to the Federal Reserve banks and such debt shall be liquidated out of any surplus of revenues over expenditures of the United States Government which may arise in future years.

SEC. 2. No interest-bearing obligations of the United States shall be sold to any bank or financial institution except for cash.